ECONOMIC RENEWAL AND CANADIAN MINING

A SUBMISSION TO THE GOVERNMENT OF CANADA BY CANADA'S MINING INDUSTRY

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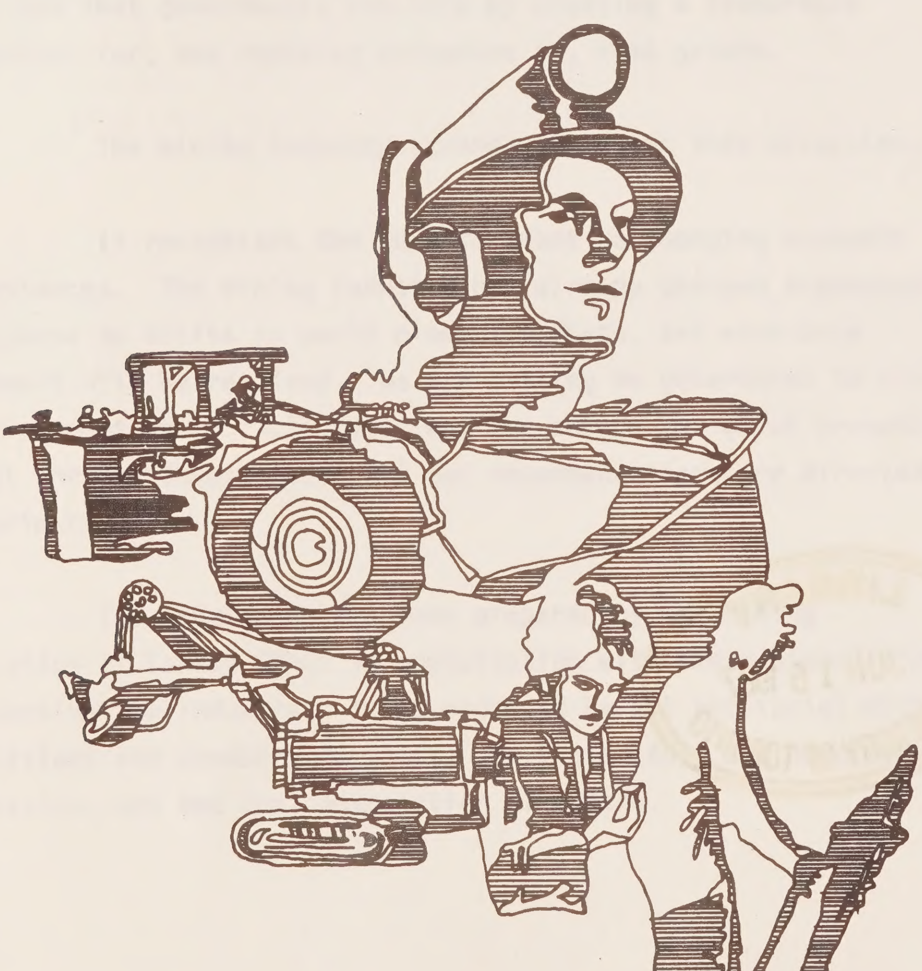

THE MINING ASSOCIATION OF CANADA

JANUARY, 1985

FOREWORD

This submission is presented to the Government of Canada on behalf of the mining industry in this country. It has been prepared in response to specific requests for industry views on policy and in the context of the Government's Economic Statement of November 8, 1984.

In that Statement, the Government foreshadowed new directions in policy which would aid economic renewal in Canada. It recognized that growth and jobs can best be created by the private sector and that governments can help by creating a favourable environment for, and removing obstacles to, that growth.

The mining industry strongly supports this direction.

It recognizes the need to adapt to changing economic circumstances. The mining industry has already changed dramatically in response to shifts in world mineral markets, and even more adjustment will be required. We are calling on government to create an environment which facilitates healthy change and which promotes renewal through investment. All our recommendations are directed to this primary goal.

The submission has been prepared by The Mining Association of Canada (MAC) in consultation with other associations representing the industry. It is endorsed by all provincial mining associations and chambers of mines, the Prospectors and Developers Association, and the Coal Association of Canada.

Chapters I and II present an overview of the basic thrust of the submission, the unique characteristics of our industry and the nature and purpose of the various recommendations. Chapters III to IX deal with specific issues. Each contains detailed recommendations for removing obstacles and encouraging growth. Readers who wish to gain a general understanding of the industry and its suggestions may do so by reading Chapters I and II.

The industry fully understands that the Government is receiving advice from many sources and that difficult choices will have to be made. The MAC also appreciates that some of the goals of common interest can be pursued by methods which may differ from those we have outlined. Therefore, we do not consider this submission an end in itself. Rather, we consider it the beginning of a process of detailed consultation.

On behalf of Canada's mining industry, The Mining Association of Canada is prepared to work closely with Ministers and their officials -- to define in more detail appropriate policies, and then to develop instruments for their implementation.

SPONSORING ORGANIZATIONS

The Mining Association of Canada

The Mining Association of Canada is the national organization of the Canadian mining industry. It comprises companies engaged in mineral exploration, mining, smelting, refining and semi-fabrication. Member companies account for more than 95 per cent of Canada's output of metals and major industrial materials.

The Association's main role is to project the views of the industry on a national scale and work with governments on policies affecting minerals. The MAC works closely with the provincial mining associations and other similar groups across Canada.

Prospectors and Developers Association

Prospectors and Developers Association is a non-profit national organization formed in 1932 to promote the interests of the Canadian mining industry in general and the mineral exploration sector in particular; corporate and individual members total 3,700.

The Coal Association of Canada

The Coal Association of Canada is a national Association charged with the responsibility of providing a single authoritative voice for its member companies involved in the orderly development of our nation's coal reserves.

Provincial and Territorial Mining Associations and Chambers

These associations speak for the mining industry and work with governments at the provincial and territorial level. In aggregate, their membership represents virtually every producing mine and plant, as well as hundreds of individual prospectors, explorationists, and supplier firms.

Alberta Chamber of Resources
Mining Association of British Columbia
British Columbia and Yukon Chamber of Mines
The Mining Association of Manitoba Inc.
New Brunswick Mining Association
Mining Association of Newfoundland
Northwest Territories Chamber of Mines
Chamber of Mineral Resources of Nova Scotia
Ontario Mining Association
Quebec Metal Mining Association
Quebec Asbestos Mining Association
Saskatchewan Mining Association
Yukon Chamber of Mines

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I: INTRODUCTION AND BACKGROUND

In a paper associated with its economic statement of November 8, 1984 (A New Direction for Canada: An Agenda for Economic Renewal), the Government set out the economic and social challenges facing this country. It suggested directions for change and asked industry and other groups to respond with their views on the various policy options available.

The Canadian mining industry has also been challenged to chart its own direction for change. Our response to highly competitive world-wide conditions has taken several forms. At the operational level, a wide variety of productivity improvement initiatives have been taken, and in some cases drastic adjustments were made. Companies are now working more effectively with organized labour, and with other interest groups, to pursue the mutual advantages of a revitalized industry.

But we also need the active support of government. In the words of "A New Direction for Canada", commenting on the resource sector, "government must ensure that it does not inhibit the process of growth and adjustment that is necessary".

In this submission, we suggest a mix of policies and programs that recognize the special characteristics of the mining industry and the economic forces shaping its future. Policies are needed that will facilitate adjustment and that will help to contribute to economic growth in future years.

Our recommendations have three basic objectives:

- The first is to improve the mineral investment climate in Canada.

- The second is to improve the international trading environment.

- The third is to bring domestic cost structures in line with international realities.

If implemented, these proposals will lead to increased investment and employment, and they will benefit all Canadians.

As this submission makes clear, the industry is not asking for financial handouts. Rather, it is proposing the removal of obstacles to growth and investment, the streamlining of regulation, and the creation of a supportive policy environment in several specific respects. Since most of our suggestions are essentially cost-free, we believe the Government can contribute strongly to economic renewal in this sector while pursuing the important goal of putting its fiscal house in order. Indeed, it can be shown that some stimulative measures can yield a positive revenue return.

The Mining Industry: Status and Outlook

The Canadian mining industry consists of all those firms and individuals engaged in mineral exploration; mineral project development; mining (extraction from the ground); ore treatment by concentration, beneficiation etc.; smelting and refining to the prime metal stage or equivalent. Over sixty distinct minerals are produced in Canada, consisting of metals and metal concentrates, industrial minerals or non-metallic mineral products, and structural materials. The industry as so defined does not include oil and natural gas, but does include mineral fuels such coal and uranium (as well as the mineable oil sands). A measure of the economic contribution of the industry can be gathered from Exhibit 1, which concludes this chapter.

What are the prospects for the rest of this century?

There are no domestic, geological resource limits to the growth of Canada's mining industry. Research by Energy, Mines and Resources (EMR) has shown that the probabilities and costs of successful discoveries are as favourable today as they ever were.

The industry's future performance does depend on how well companies respond to altered international market conditions, and on the overall performance of the global economy. To a very significant extent, it depends on how successful governments are in making Canada attractive to mineral investment.

Recent cyclic and structural changes have had major impacts on the mining industry. On the market side, these include:

- increased global commodity supply;

- soft demand (i.e. from 6 per cent annual growth in the 1960s to 0 per cent for the last decade, and the prospect of only 1 - 2 per cent in the future for some commodities);

- changes in the geographical concentration of demand (i.e. the relative decline in the importance of the U.S. and other developed market economies as a source of growth);

- currency fluctuations;

- technologically-induced changes in the composition of demand, leading to substitution in end-use applications;

- altered marketing practices due to the rise of government influence on supply decisions in LDCs.

These factors have combined to create soft prices, tougher competition, and global excess supply capability. They have also created a tendency towards constrained market access due to protectionism in some areas and the extension of preferential treatment to selected countries in others.

A fundamental characteristic of mining is that the prices of mineral commodities are internationally determined. Neither

Canadian producers nor the Canadian government can control the price at which our minerals are bought and sold. It therefore follows that producers cannot pass on cost increases to consumers.

This fact explains why the vitality of our industry is closely tied to structural change and mineral price cycles. It also accounts for our constant emphasis in this submission on competitiveness and the control of costs. The only way to maintain a vigorous industry while adapting to shifting market conditions is to rigorously ensure that our costs of production are among the lowest in the world.

Industry has therefore responded to altered market realities in dramatic fashion by:

- slashing costs and reducing work forces;
- closing uneconomic operations;
- emphasizing productivity improvement through technological innovation and associated upgrading of worker skills;
- shifting exploration efforts towards commodities having a higher demand potential;
- extending and diversifying international marketing efforts.

As a result, the Canadian industry today is leaner and more competitive. While its financial capacity for immediate investment and expansion is limited, it is in a position to benefit greatly from improving mineral prices. Segments of the industry have considerable potential for renewed growth in the medium to long term. Existing market imbalances will eventually be resolved and the Canadian mining industry will be able to take advantage of this situation.

Looking to the future, some existing mines will exhaust their current ore reserves by the end of the century. Other operations, responding to exploration success and market opportunities in particular fields (e.g. precious metals and industrial minerals), will expand and flourish. However, historical rates of new mine openings will only be achieved when market conditions and rates of return improve.

The industry will need to become more global and analytical in its marketing and move towards the production of a greater diversity of end products -- including advanced industrial materials -- to meet the needs of specialized markets.

Cost competitiveness will be further improved by company efforts to accelerate technological advance. In fact, many Canadian mines and plants could experience a radical transformation of production techniques within fifteen years.

To bring about such a transformation, and to develop mines from recent mineral discoveries, will require large investments. Internal financing will have to be supplemented by capital obtained from tapping both Canadian and foreign sources. Constructive tax policies and foreign investment policies will be essential. So, too, will efforts by all levels of government to reduce operating cost burdens placed on the industry, burdens created by the imposition of non-profit taxes and other mandated charges, regulatory requirements and legislated program obligations.

In concert with changes in technology and production, skills of employees at all levels will have to be upgraded and worker mobility enhanced. Improved employee/employer relations and a supportive human resource policy environment are needed.

In sum, between now and the year 2000, the Canadian industry will increasingly be a strong, tough competitor that relies on aggressive marketing, on technology, and on innovative human

resource policies to provide its world market edge. It will look to selective growth to offset the employment effects of labour-sparing technology.

It is extremely difficult to predict, in detail, the patterns that will emerge or the long-term trends of mineral production in Canada. It must be emphasized, however, that the Canadian mineral endowment continues to be favourable and will justify large exploration efforts in search of superior deposits. As well, the predisposition of Canadian mining firms is to look for opportunities close to home.

Growth of the industry will not only be dependent on the performance of the international economy. It will also depend on the existence of a domestic policy framework that competes favourably for international mineral investment and that minimizes industry operating costs. To remove existing obstacles and create conditions conducive to long-run industry vitality is the challenge for government. The payoff in terms of mineral production, employment, and industrial benefits perhaps cannot be calculated, but it is very real.

Fiscal Responsibility and Industry Independence

It may be useful to place our recommendations in context with the government's deep concern for the principle of fiscal responsibility.

The Canadian mining industry takes pride in the fact that its importance today (and throughout history) is not the result of massive subsidy or government intervention. Special measures which assist other industries (such as the tariff, agricultural subsidies and stabilization payments, and direct financial support to the aircraft industry, to mention only a few) are absent in the case of mining.

It is true that for several years under the Emergency Gold Mining Assistance Act, payments were made to facilitate the orderly adjustment of the gold mining industry to a reduced scale of operation. The payments were required because the gold price was held down by government decree. When market forces were once again allowed to operate, the payments ceased.

It is also true that some isolated mining projects have received infrastructure assistance (such as roads, etc.) from governments. However, the majority have not. In any case, the industry has more than paid back this support, while the community as a whole has benefited both from the infrastructure and the economic activity provided by mining.

Favourable tax provisions and a supportive policy environment existed prior to tax reform in the early 1970s. This period ended when federal tax reform coincided with a temporary but sharp increase in prices for resource materials. Provincial and federal governments competed strongly for "resource rents" and a period of definite over-taxation ensued.

The pendulum swung again towards stability in mineral taxation when a federal/provincial agreement was reached in 1978/79 as a result of combined efforts by both levels of government and the industry. The resulting federal income tax structure, which incorporates a "resource allowance", is generally regarded as equitable by the industry.

Our policy suggestions in the tax field are targeted to call forth very specific industry responses. The majority of these proposals could be implemented with no effect on the treasury (except for the timing of payments) or with minimal effect. A few might have unforeseen or substantial impacts on government revenues. Detailed discussions with government officials will undoubtedly reveal a consensus position on priority actions.

A final word is necessary on the tax question. The mining industry may be considerd a target for the raising of additional revenue to help cover the federal deficit. Any such move would be strongly opposed by the industry, and with good reason.

First, simple fairness suggests that an industry which is not in receipt of federal grants or subsidies should not be subjected to new tax burdens at this time.

Secondly, today's slow recovery suggests that many mining operations will continue to be marginal for at least a few years. Any measure which weakens the corporations' financial position will directly inhibit productivity-enhancing investment and would lead to loss of employment.

Third, any unilateral move by the federal government to change the structure of mineral taxation, or encroach on the provincial taxing room created by the resource allowance, would be regarded by the provinces and the industry as an abrogation of the hard-won agreement reached in 1978/79. A new resource taxation conflict could result, and it would be disastrous for Canada's investment climate.

Exhibit 1

The Economic Contribution of Canada's Mining Industry

	Year	
	1980	1984
Operations:		
Mines	260	280
Smelters	16	18
Refineries	18	18
Employment (thousands):		
Mining	95.6	81.7
Smelting and refining	33.2	29.4
Subtotals	128.8	111.1
Metal fabricating and mineral manufacturing	262.0	264.5
Totals	390.8	375.6
Value of Production ($ millions current):		
Mining plus smelting and refining	$20,870.2	$12,313.9
Share of G.D.P.	4.1%	3.4%
	1980	1983 (P)
Value of Exports ($ millions current):		
Crude material	$ 7,448.5	$ 6,316.7
Fabricated material	9,509.1	8,624.1
Totals	$16,957.6	$14,940.8
Per cent of total Canadian exports	22.3%	16.3%
	1980	1984
Share of Freight Moved in Canada: (millions of tonnes)		
Loaded on railways (Crude and fabricated mineral products)	51.5%	50.1%
	1980	1982
Loaded at ports (Crude minerals only)	48.5%	52.4%
	1978	1981
Per Cent of Assets Under Canadian Control	64.0%	71.8%

Sources: Statistics Canada, various publications; Energy, Mines and Resources.

Notes: Industry and commodity definitions vary somewhat between statistical sources. Right-hand column represents most recent data available. P = preliminary.

II: OVERVIEW AND RATIONALE FOR RECOMMENDATIONS

Policy Implications of Mineral Cycles and Structural Change

The mining industry experiences two kinds of cycles and both are important for policy purposes.

The life cycle, a unique feature of this industry, traces the life of a mine from discovery to eventual depletion and closure. To survive, a mining company must always be seeking superior mineral deposits and must open new mines to replace those that are reaching the end of their productive lives. The business cycle is related to periodic variation in demand and price for minerals. It can result in fluctuations in the financial strength of the industry, unstable employment levels, and varying contributions to government revenues.

It should be noted that the end of a mine's life can be reached either because the ore is physically depleted or for economic reasons. Commonly, minor portions of an ore deposit remain in place when the decision to close the operation is made because it is not profitable to mine the remaining material.

Structural changes, or long-term market trends, also exert a strong influence on the business cycle and life cycle of a mine. For example, the development of persistent world over-capacity for a specific mineral has a depressing effect on its price. The peaks of the price cycle become less high and the troughs deeper. The life cycle of an individual mine is also affected, for lower prices lead to cash shortages, an increase in the cut-off grade of the ore, deferral of necessary development work, the reduction of reserves, and, eventually, early closure.

Naturally, a positive trend in the market conditions for a particular mineral, such as increased demand created by new appli-

cations or new technology, will have the opposite effect. Under these conditions, the average price trends upwards and the life of an individual mine may be extended.

In this way, certain structural changes may be beneficial to Canada's interest. Industry executives believe that some long-term trends will lead to selective but important growth opportunities for Canadian mining.

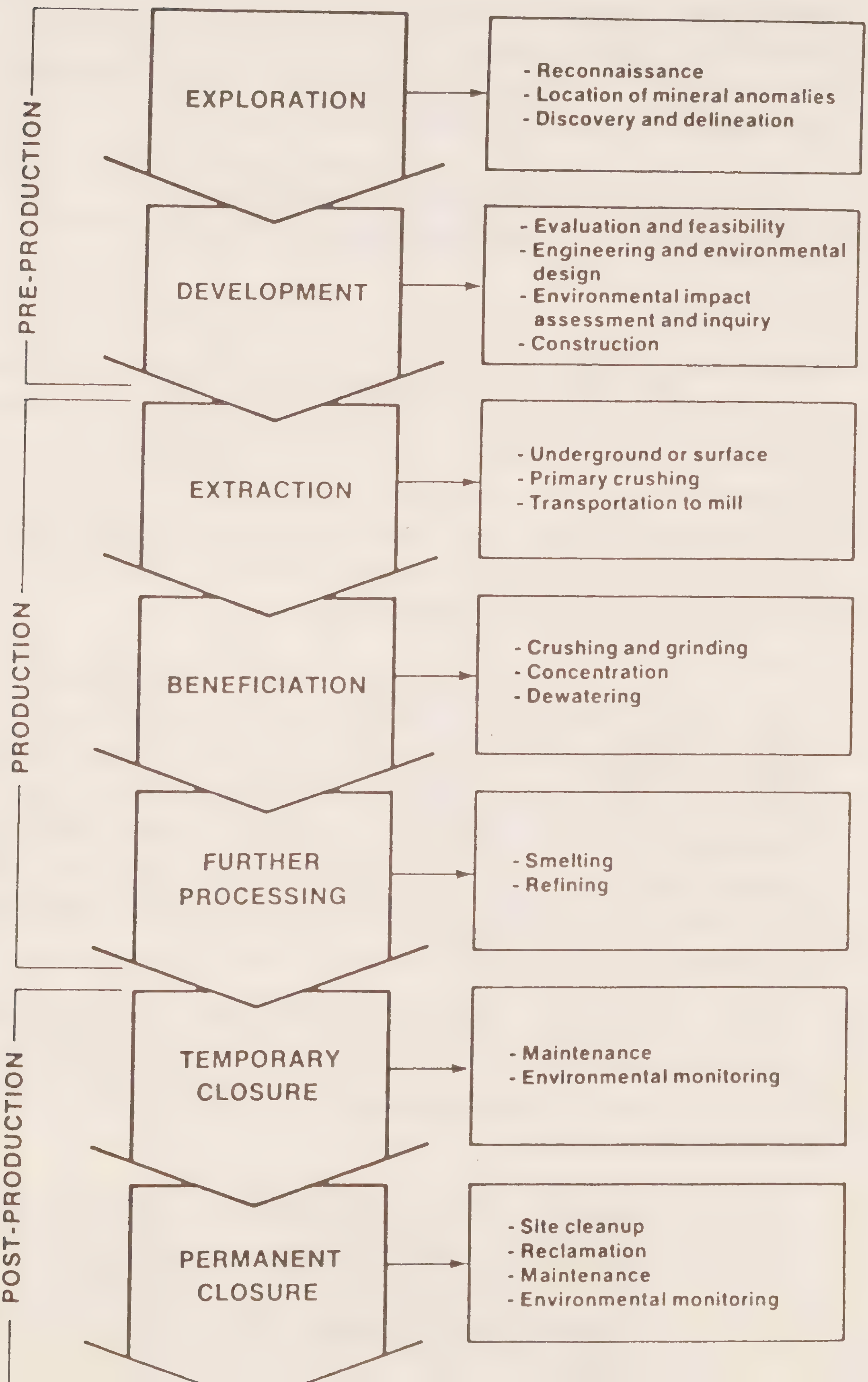
Thus it is clear that structural change, the business cycle and the life cycle are all interrelated. It is vital that public policy take these characteristics, as well as the fact that mineral prices are outside our control, into account. In view of this close interrelationship, the industry is not proposing special policies to deal with structural change as such. From our viewpoint, supportive, adaptive policies designed with mineral cycles in mind will also help the industry adapt to structural change.

This chapter describes these special features of the industry. It also shows how the MAC recommendatons relate to specific public policy goals which must be components of the government's objecive of revitalizing Canadian mining. In other parts of this submission, the MAC recommendations are discussed in full. This chapter simply gives an overview of the detailed recommendations, presented in the context of the realities facing the Canadian mining industry.

The Life Cycle

Figure 1 shows the sequence of operations of a typical mine during its life. According to estimates made in 1979, the average base metal mine in Canada requires eight years of exploration and two years or more of pre-production development activity before it begins producing. The productive life of mines varies greatly. Some mines in the old world have been worked for hundreds of years.

FIGURE 1 MAJOR STAGES IN THE MINING PROCESS



Canadian mines have operated for periods varying from three or four years to thirty years or more. A typical or "average" productive life would be in the order of thirteen years. All mines eventually close because of physical or economic depletion.

Each stage in the production process brings with it unique challenges for industry management and for public policy.

1. Exploration

It is essential for each company to explore for new mines in order to renew and maintain its capacity and ensure its survival. In many ways, this is analogous to the need for research and development in the high-tech industry. "On-property" exploration is also an essential part of operations carried out coincident with production to locate extensions of known orebodies. Without continuous renewal the firm cannot survive.

Successful exploration on a national scale requires access to large tracts of land, availability of risk capital and properly functioning financial markets. It requires a predictable public policy environment, efficient exploration orgnizations and techniques, and economic incentives to explore in Canada rather than in other countries. These incentives need not be artificial; rather they consist simply of a favourable assessment by the private sector of the ratio of risk to reward.

An essential goal of public policy must be to secure the long-term economic contribution of the mining industry by improving the effectiveness of mineral exploration in Canada. Major factors in achieving this goal are:

- access to land: see Chapter VIII on Northern Mineral Development. Recommendations to preserve access to existing areas and to open new areas to mineral exploration will stimulate field activity in the short term;

- availability of risk capital: see Chapter IV on Mineral Taxation. Recommendations to improve the operation of flow-through shares will stimulate the junior mining sector, a highly efficient form of exploration organization, enhance the economic incentives for mineral exploration, and improve the chances of successful mineral discoveries in Canada;

- policy environment: implementation of our suggestions on Regulatory Reform (Chapter IX) and Northern Mineral Development (Chapter VIII) will assure potential explorationists that a hospitable environment exists in Canada.

2. Development

It is at this stage that major investment in a mine is normally required. Heavy costs are incurred for the construction of surface facilities as well as for pre-production underground development and pre-production open pit stripping. Issues that face management include the availability of retained earnings within the corporation, the operation of financial markets and institutions, the availability of foreign capital, and the willingness of the investor to risk his capital in Canada and in individual regions or provinces. They include the establishment of infrastructure by governments or by the corporation, the establishment of a single-industry community or its alternative, the fly-in/fly-out option. Of particular concern are timely approvals under the regulatory review process since the "window" for a new investment may depend on market conditions. An opportunity delayed may be an opportunity lost.

If mining is to make its full contribution to the Canadian economy, it will be necessary to obtain more investment in new mineral projects in Canada.

Major factors in achieving this goal are:

- availability of internally-generated funds: See Chapter IV on Mineral Taxation. Harmonization of federal and provincial tax regimes to avoid high marginal and statutory rates and to remove progressive taxation would permit accumulation of capital pools when profitable conditions return;

- availability of foreign capital: see Chapter IX on Regulatory Reform. Removal of special restrictions on mineral sector projects would stimulate flow of funds to economic investment opportunities;

- availability of new pools of investment capital: see Chapter IV on Mineral Taxation. Flow-through tax credits to investors who support pre-production development and fixed-asset investments would stimulate the flow of funds for this purpose;

- timely regulatory approvals: see Chapter IX on Regulatory Reform. Harmonization of the federal and provincial regulatory process, closer attention to economic benefits, and streamlining federal powers and procedures under the Fisheries Act would permit future investment opportunities to be grasped.

3. Production Activities

At the operating stage, cost control is paramount, as industry executives have re-discovered in recent years. Canadian mining firms know that they must minimize costs and maximize productivity to maintain their competitiveness in world markets. This implies use of the best possible technology and may require investment during the operating life to renew facilities and upgrade the technology in use. Other requirements are for a healthy industrial relations climate and a reasonable regulatory environment.

A major issue with mining companies in recent years has been the rapid escalation of costs imposed by, or regulated by, government. To aid its struggle for survival, industry recommends that the same rigorous standards of cost reduction or containment be applied to these externally-imposed costs as have been applied to those under the control of the mining corporation itself.

The only way to preserve employment and other economic contributions from operating mines and plants is by preserving their competitiveness and viability. Private-sector managers have the chief responsibility for this, but supportive public policies are needed in several areas:

- availability of funds for cost-reduction investment projects and technology upgrading: see comments above concerning the availability of investment capital from internal sources, foreign sources and new capital pools;

- industrial relations and human resources issues: see Chapter III on Labour Markets and Human Resources. Policies facilitating productivity growth will help the private sector keep costs in line;

- regulatory environment: see Chapter IX on Regulatory Reform, and Chapter VIII on Northern Mineral Development. Careful assessment of the economic effect of regulation can achieve social goals over time while helping to preserve the viability of the mining sector.

- mandated costs: see Chapter V on Industry Competitiveness and Government-Mandated Costs. Rigorous control of all costs in the Canadian economy, including costs imposed or controlled by governments, is essential to preserve the competitiveness of Canadian industry generally, including mining.

4. Closure

At the end of its life, the mine ceases production and this phase poses many challenges to management. As has been indicated, the timing of this shutdown may be governed as much by market conditions and cost levels as by the physical exhaustion of the ore. Some mines may shut down and start up several times during their life, depending on market conditions. At each shutdown, social costs and community dislocation may be more or less severe depending on alternative employment possibilities, the dependence of the community on the mine, the regional economy, the degree of isolation of the community, and so on.

The company has an obligation to give appropriate notice and to provide termination benefits to employees. Government programs also come into play, providing for mobility and retraining benefits. In the long term, mine sites must be rehabilitated and maintained. Mining corporations accept the financial responsibility for this phase of the production process, as well.

The government is aware that public policy must facilitate required adjustments to structural changes. In the context of mining, it must ease the transition of individuals and communities. Future adjustments will require the Canadian mining industry, governments and labour organizations to continue their cooperation in innovative adjustment schemes including early retirement and job creation projects. Adaptive federal "safety net" programs are an integral part of the mix. See our suggestions for non-taxation of termination allowances, as well as for improved training and mobility schemes, in Chapter III on Labour Markets and Human Resources.

The Business Cycle and Structural Change

Superimposed on the mining life cycle are the effects of business cycles and structural change. Mining is more cyclic than most industries. Over a period of years mining employment has varied more than that of any industry except fishing. Moreover, metal prices are much more volatile than industrial prices generally. For example, automobile prices have steadily increased, while those of metals included in cars have fluctuated wildly. Certain marginal mines may be considered "intermittent" mines; that is, they can operate profitably when prices are at the high point of each cycle but are forced to shut down when prices fall.

When prices and demand for minerals are moving down for cyclic or structural reasons, mining companies experience reduced profits and their capacity for new investment is limited. In a severe cycle or structural adjustment, layoffs in the workforce may be necessary, and government revenues are reduced.

1. Reasons for Mineral Business Cycles

Several reasons account for this strong cyclic tendency. Both demand for and supply of minerals are relatively inelastic with respect to price. Moreover, time lags occur because of long inventory "pipelines" and reluctance of both producers and consumers to adjust their production patterns to cyclic shifts in price.

Additional lags result from the fact that important minerals are consumed primarily by the capital goods industries rather than by consumer goods industries. Because of these factors, cyclic shortages and surpluses of minerals have been a feature of mineral markets. Prices are periodically driven unduly high (and low) in consequence.

A new structural factor in mineral markets in the last two decades has been the growth of government-dominated or government-influenced production decisions, particularly in the Third World. A greater tendency to continue non-economic production has resulted, aggravating price cycles and leading to persistent overproduction, notably during the recent recession. Figure 2 shows that cycles have become more pronounced, while the profitability trend (taking account of inflation) for metal mining in Canada has been steadily downward.

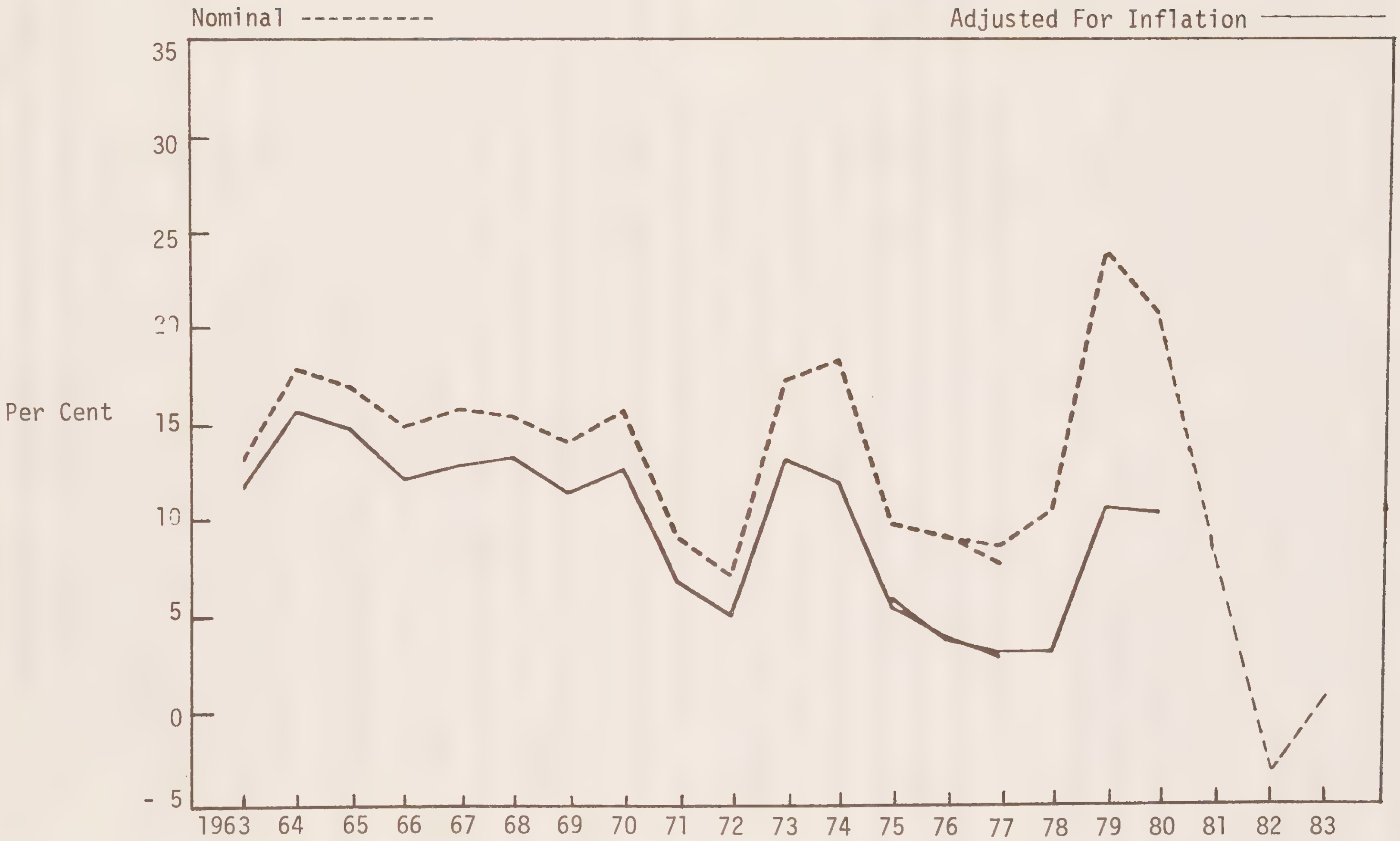
Canada's policies, both domestic and foreign, also have contributed to the problems of cyclicism and competitiveness for the Canadian mining industry.

For one thing, Canadian and U. S. anti-inflation policies have led to extremely high interest rates in North America. Mining firms entered the recession in a highly levered position, with higher ratios of debt to equity than normal. As revenues collapsed and interest rates climbed, heavy fixed interest charges threatened the survival of major firms in the industry. Only by rigorous cost-cutting measures have companies succeeded in stabilizing their financial position.

Exchange rate policy has also been a major factor. The Canadian dollar has been strong in comparison to most other world currencies. This, coupled with stagnant mineral prices, has placed Canadian producers at a disadvantage relative to those outside North America. For example, recent gold prices in U. S. dollars have been about half of peak prices realized three to four years ago. By contrast, the same price, expressed in South African Rands, has remained at or above its all-time high. South African producers are reaping the benefit. Other countries' devaluations in recent years have clearly been of considerable help to their mineral industries.

Figure 2

METAL MINES: RETURN ON EQUITY
AFTER TAX



Source: Adapted from the Department of Energy, Mines and Resources.
Based on Statistics Canada 61-003.

In the field of international relations, Canada has supported efforts by the World Bank (and other International Development Banks) and the I.M.F. to improve financial conditions in the Third World. The industry does not condemn these efforts, recognizing that continued support and development of less fortunate countries is essential. However, it should be noted that I.M.F. policies calling for expanded exports of resource materials from Less Developed Countries (LDC's), and Development Bank funding of mineral development projects, have thrown the burden of adjustment to some extent selectively on the mining industry.

The combined effects of all these factors have constrained the ability of the Canadian mining industry to make its full contribution to the Canadian economy in the past several years. They have exacerbated the impact of the 1981/82 recession, itself one of the most severe in this century.

2. Remedies for Mineral Business Cycles

Remedial efforts can have two broad objectives. First, they can be directed towards moderating the nature and extent of the underlying business cycle. Secondly, they can attempt to mitigate the effects of cycles on this industry, its workers, and the communities that are dependent on it. Several policy suggestions in support of these two objectives are given elsewhere in this MAC submission. Brief reference to them is made below.

a) Moderating the Nature and Extent of Cycles

Governments have perceived the need to dampen the severity of mineral price cycles and reduce the tendency to overproduction. Their efforts take three forms and these should be further emphasized:

- promote efficient mineral markets: these only exist where market access is available to the most competitive producers, where the operation of markets is made

transparent through the provision of adequate information, and where production and consumption decisions are responsive to price signals. Chapter VI on Export Markets and Trade and Chapter VII on International Institutional Arrangements and Foreign Policy make several key recommendations for government action along these lines;

- encourage rational investment decisions: considerable overcapacity exists in world mineral supply because of subsidized investments in, and continued production from, uneconomic mines. Some time will be required for consumption growth to absorb this now chronic overproduction and restore remunerative pricing. In the meantime, it is essential that international financial institutions and governments avoid making the same mistakes in future. Fortunately, a measure of discipline has been imposed by the world financial crisis. Chapter VII on International Institutional Arrangements and Foreign Policy contains a proposal for the adoption of guidelines to govern future Canadian participation in international financial institutions;

- adjust Canadian macroeconomic policy: although detailed recommendations are not made in this submission, it should be recorded that the industry supports the Government's initiatives to get control of the federal deficit and to reduce interest rates. Lower interest rates will stimulate the domestic economy, including mining. Moreover, the industry urges a realistic exchange rate policy. A decline in value of the Canadian dollar, coupled with an interest rate reduction, would provide an immediate stimulus to the resource industries and reinforce Canada's basic industrial strength. Traditional macro policies designed to stimulate demand in Canada do not assist mining very much because it is very dependent on exports.

b) Mitigating the Effects of Business Cycles

Given that cyclic behaviour is likely to persist in spite of governments' efforts to moderate it, the question arises, how can its effects on Canadians and on the industry be alleviated? It has been noted that severe cycles can weaken corporations and cause fluctuations in employment. The worst of these effects can be avoided if our industry is highly cost-competitive. There is scope for public policy initiatives in three areas:

- financial strength of the industry: see Chapter IV on Mineral Taxation. When profitable operation is again achieved, our proposals on harmonized federal/provincial taxation and avoidance of high marginal and statutory rates will permit an appropriate build-up of retained earnings to assist survival and the ability to stabilize employment and continue exploration in future downswings;

- reduction of operating cost: only the most cost-efficient mines and plants can continue to operate and provide continuous employment during down-cycles. Strong recommendations are made in this MAC submission on preserving the competitiveness of Canadian operations. These have been discussed in an earlier part of this section, which refers to specific recommendations on issues connected with investment capital, taxation, human resources and productivity, the regulatory environment and mandated charges (those imposed by government decision);

- community stabilization and retention of skill pools: in view of the possibility of layoffs and temporary mine closures in future cycles, Chapter III on Labour Market and Human Resources recognizes the value of existing safety net programs including job creation programs. Some suggestions are made to reduce the cost and disincentive aspects of these programs.

III: LABOUR MARKETS AND HUMAN RESOURCES

The Canadian mining industry is committed to employment development. However, the creation of jobs is linked to remaining cost-competitive in the mineral marketplace.

In order to meet the competitive and job-creation challenge, the industry continues to press for better market access. It also emphasizes the introduction of better mining methods and productivity improvement, including more effective human resource planning and development activities such as multi-skill training. The pace of technological change and the pressures for competitiveness are leading workers and management to consider a more cooperative approach to labour-management relations, and to manage dislocation and adjustment in a more humane way. They are considering the future skill needs, as well as the training and retraining needs, of the industry.

Employee/Management Relations

Companies and unions are attempting to improve consultation on a number of matters affecting the work place. Improved job design, training programs, the development of shift schedules, and productivity gain-sharing are now being addressed jointly in a number of companies. Others are experimenting with quality circles and reducing the size of management units to improve communication.

These efforts are contributing to a higher level of cooperation and trust that will ensure smoother plant start-up and operation in the future. Technological advances could aid this evolution as rising skill levels will tend to lessen the gap between employees and management. There are also signs that a growing number of employees and unions believe that productivity enhancement, profit, and cooperation with management are the keys to ensuring job security.

In January 1984, the Canadian Labour Market and Productivity Centre (CLMPC) was established as an autonomous business/labour-directed agency to develop approaches to improved productivity in the workplace, study the labour market situation in various economic sectors and then make recommendations to alleviate perceived problems. The mining industry has taken a lead role in the development of Sector-based Committees within the Centre and endorses the approach whereby government assists business and organized labour to jointly work on methods to serve the public interest.

Recommendation

- The Canadian Labour Market and Productivity Centre should assist in the development of programs to demonstrate how employee efforts, company performance, productivity, and technological change are all interrelated.

Dislocation and Adjustment

While both corporations and workers are caught in the web of downcycles and structural change characteristic of these difficult times, it is the individuals who must bear the social and psychological cost of change.

Unlike city dwellers, employees subject to mine closure in remote communities are obliged to uproot their families in most cases and move to another town in order to seek employment. This process incurs substantial additional relocation costs.

Support for workers affected by economic adjustment can come in a variety of forms -- the payment of Unemployment Insurance, provision of tax relief, and flexibility in pensions. These mechanisms are some of the keys to the equitable sharing of the burden of adjustment among workers who are awaiting recall, planning their retraining activities, seeking new employment, or planning for their retirement.

Here are considerations which we believe will make these mechanisms more effective.

1. Unemployment Insurance

In past years, Unemployment Insurance (U.I.) has provided the main support for displaced workers, and extended U.I. benefits have been made available for workers undertaking retraining programs. This strong safety net must be maintained.

The mining industry believes that Unemployment Insurance benefits should be provided to those in Canada's workforce who, through unforeseen circumstances, become unemployed and require some financial assistance while waiting for recall or seeking other employment. However, we share, along with many other business groups, concern over the effective management of this program. Notably, we question:

- the effectiveness of efforts to deal with structural unemployment by increased benefits and entitlements;

- increased premiums, designed to cover the accumulated $4.2 billion U.I. deficit, which have placed an added burden on employers, in some cases inhibiting employment creation;

- the perpetuation of a system of passive payments to the unemployed, which reduces work force mobility;

- the automatic indexing of certain aspects of the U.I. program, at rates higher than those that prudent financial management would dictate;

- the incorporation of a wide variety of non-wage-related social programs (such as sickness, maternity, adoption, and retirement) within the U.I. program and the added costs these have laid on employers and employees.

Recommendations

- A full review of all dimensions of the U.I. program should be undertaken. Some of the changes which should be considered are:

. removing automatic indexation of the Act. A mechanism could be put in place to make yearly adjustments, if required;

. funding non-wage social aspects of the program through the consolidated revenue account and not from employee/employer premium contributions;

. reducing the maximum duration of benefits from fifty-two weeks to an eligibility period based on regional employment opportunities;

. increasing the period of disqualification from the present six weeks maximum in the case of an employee who quits without cause or who is fired for misconduct;

. requiring those individuals receiving U.I. to undertake, to the greatest degree possible, training in order to improve their skills and re-employability.

- The training aspects of the U.I. program should be exploited fully. Whenever practical, applicants for U.I. benefits should be encouraged to participate in a training/retraining program. Benefits would then continue for the duration of the training activity. Through Section 39 of the U.I. Act, some mining companies have already made use of under-utilized in-house training facilities created because of layoffs. Admittedly, this is a short-term, remedial situation in cases when there is a good prospect of industrial recovery. But workers who would otherwise have been laid off are able to upgrade their skills and become more productive. Both the workers and the company are, therefore, jointly motivated to implement such a program which keeps the work force intact for the duration of a shutdown. This approach is more likely to succeed than the proposal for skill development leave that currently has the support of the Canada Employment and Immigration Commission.

- In addition, support should be continued for mechanisms which permit laid-off workers to carry out private sector job creation projects. Such projects offer workers the opportunity to gain experience by allowing them to take part in work that makes a contribution to their community and also serves to keep the work force stable, so that rehiring can more easily occur. During the most recent recession, several mining companies participated in U.I. job creation projects. We encourage the new government to continue to make this vehicle available to mitigate the cyclical characteristics of the industry.

2. Tax Relief

When the employment base of a community is eroded for whatever reason, the need to minimize the economic costs for the individuals involved must be recognized. This is the case today in many mining communities which lose their economic footing because of market conditions or depleting ore bodies. In such situations, any payments made by companies to employees -- in the form of enriched severance or housing compensation -- should not be offset by tax burdens. These payments, in fact, facilitate the relocation, retraining, re-employment or secure retirement of the work force. They should not be considered windfalls, but necessary support for personal economic adjustment.

It is encouraging to note from the government's Economic Statement of November 5, 1984 that tax relief for termination benefits will be provided for workers when the principal industry is located in an isolated or remote community and is forced to close. In the designation of such communities, it will be important to have the broadest possible criteria for eligibility, paying particular attention to the impact of closures on the local economy, as measured by the market value of principal residences in the community. This measure may or may not be closely correlated with the community's degree of isolation.

Recommendation

- Industry supports the government's intention to grant tax relief to employee severance payments made where resource industries close in isolated communities. The criteria for designation of eligible communities should realistically reflect the economic impact of the industry's closure on the community, which may or may not be closely related to its degree of isolation;

- Pension income, separation allowances and vacation pay should not be included in establishing U.I. benefit levels. This measure is unduly harsh for individuals who have lost their jobs through economic adjustment.

3. Flexibility in Pension Arrangements

The mining industry has generous pension schemes compared to other business sectors in Canada. For the most part, these plans are non-contributory on the part of the employee.

Nevertheless, in most cases pension credits are not transferable from one company to another, with the result that individuals who are not vested lose their pension credit. This situation limits workforce mobility and adjustment, particularly during times of employment reduction when mobility is a requirement. The industry recognizes the need for labour mobility and supports measures to promote increased flexibility in pension arrangements.

However, the whole area of pension reform has many problems. These include:

- the impact on payroll costs of the early vesting formulas set out by the previous govennment's Green Paper on Pension Reform;

- the complications which result from transferring pension credits from one company to another;

- the overlap of federal and provincial jurisdictions on companies with more than one operation;

- the question of transferability to other sectors in the event of a separate pension fund scheme being established for mining.

Recommendation

- All the potential problems with flexible pensions need to be examined in conjunction with the affected parties. Perhaps the example of the initiative taken in January 1982 by the Quebec Metal Mining Association to provide a limited portability scheme for its member companies could be a starting point for such an examination.

Skill Development, Training and Retraining

The challenge for individuals and companies is to adjust to change. By putting in place an effective training and retraining system in Canada, effective adjustments can be promoted. As a basis for planning, consideration should be given to the main factors shaping the labour market in the years ahead. It should be noted that:

- there will be increased demand for more highly-skilled occupations in line with technological change and productivity imperatives;

- the Canadian labour force will grow at only half the rate it did in the 1970s;

- the baby boom generation will not produce enough manpower needed to meet Canadian industry's long-term requirement;

- there will be reduced opportunities for youth employment in the short to medium term and generally a more difficult transition from school to the work place;

- the industrial base in several key industries will decline, having particular impact on specific communities;

- the possible bunching of projects during economic growth will require large input of many similar skills.

Because of the location and nature of its operations and specific labour requirements, the mining industry is particularly vulnerable to these changes. Today, we are facing the problems associated with layoffs, but in the future there may be a recurrence of shortages in critical occupations.

It is unfortunate that the training of many apprentices was interrupted by recent necessary workforce reductions in mining. Under most collective agreements, junior employees (such as most apprentices) are laid off ahead of those with more seniority. This interruption will constrain the supply of highly skilled workers in future years and will work against adaptation to new technology. New institutional arrangements, possibly building on the experience of other countries, could be developed which would minimize such interruptions in future.

1. <u>National Training Act</u>

The industry's policy regarding employment and training has been set out to cover these short- and long-term needs. Reference has already been made to the remedial tax, U.I. and pension measures required to effectively deal with adjustment. But new directions are also required to better focus skills training in Canada.

Recommendations

- We support fully the thrust of the National Training Act of 1982. It makes good business sense to channel scarce training funds to occupations designated as nationally important. The main program utilized to obtain these designations, i.e. The Canadian Occupational Projection System (COPS), is, however, only as effective as the quality of information fed into it by the economic partners;

- The Mining Association of Canada is currently working with the Canada Employment and Immigration Commission to develop a detailed skills inventory and an assessment of the industry's human resource requirements and concerns. Other major industries should undertake similar initiatives. If they do not, the COPS analytical base will be weak and we will continue to "shoot from the hip" in planning to meet Canada's human resource needs;

- Once critical occupations have been designated, this industry believes that Canada should emphasize on-the-job training for trades critical to the growth of industry. The new Critical Trades Skills Training Program continues to play an integral role in the process. New institutional arrangements should be explored which will assure continuity of on-the-job training despite fluctuating employment levels;

- Measures are required to better integrate industrial and institutional training. The gap between the educators, the business world, and the government is still too large. Increased use should be made of business/education/government interchanges as a way to better improve the interactions between these groups and the understanding of each other's methods and workings;

- In order to establish uniform standards within a province, most skilled trade occupations are subject to a certification procedure. Usually, this involves apprenticeship programs that have educational components, as well as on-the-job training. The inter-provincial standards program allows portability of credentials for tradesmen who are transferring or relocating to another part of Canada. This practice should be expanded in order to create greater mobility of skilled tradesmen in the work force. An industry/government task force should be set up to establish the full impact of this recommendation and provide a critical path for its early implementation. Studies of systems in other countries would be useful in this regard.

2. Immigration

The mining industry believes that Canadians should have the first opportunity to fill Canadian jobs. However, when the skills are not available in Canada, nor can they be developed in a timely way to meet corporate needs, the industry should have the liberty to recruit the necessary human resources to meet those needs. It should be noted that mobility is a key determinant of availability; any worker who is unable to relocate should not be considered available to the company seeking his skills.

Recommendation

- When a company has demonstrated its "Canadians first" efforts, in both the training areas and the search for qualified Canadians, government should not impede the immigration process.

3. Youth Employment and the New Professionals

There is concern in this industry that recent graduates, who have planned a career in mining, could be permanently lost to the industry because of the weakened job market. The mining industry will continue to focus attention on youth employment, in an effort to ensure a continued supply of professionals in the years ahead.

Recommendation

- The concept of student internship should be explored fully as part of the new direction. The industry has had some experience in this field, when under the CEIC's Career Access Program, a Mining Internship Program was launched in March 1984. This pilot provided funding to sponsor an intern for one year, from the pool of graduates in a range of designated mining professions. However, weak economic conditions prevented the full utilization of this program. New terms and conditions should be devised to encourage full participation in addressing the problem.

4. Technological Change and Productivity Growth

The theme of this entire submission is the need to improve cost competitiveness of the Canadian mining industry. Technological change and productivity growth will be key elements in this thrust.

At the same time, such changes will create special concerns with respect to all the specific issues dealt with in this chapter. Employee/management relations; dislocation and adjustment; and skills development, training and retraining will all need careful attention.

We believe the policies recommended here will help Canada meet the challenges posed by technological change and productivity growth. If we can parallel our technological developments with the implementation of social programs designed to enhance workforce mobility and adjustment in a cost-effective way, Canada will be many steps closer to ensuring its future economic success.

IV: MINERAL TAXATION

Introduction

The economic contribution of the mineral industry is heavily dependent on international mineral market forces which are beyond Canada's direct control. Taxation, on the other hand, is an important determinant of the economic vitality of the industry and a variable which governments can control. Through their taxation policies, governments can influence strongly the level of exploration and investment activity, the competitiveness of the industry and its contribution to employment and trade.

There are attractive features in the present Canadian mining tax regime. Overall, however, the climate for new mineral investment has deteriorated in the last ten or twelve years.

In comparison with the legislation that existed in the late 1960s, the industry has experienced a sharp increase in the level of taxation and, in some provinces where escalating tax systems are in place, a sharp increase in marginal tax rates. From an investment perspective, the current tax system is weakened by continued instability, unnecessary complexity, and a lack of federal/provincial harmonization. As well, it does not adequately address problems the industry faces in sustaining exploration and development expenditures through economic cycles. Indeed, in the present depressed state of the industry, few companies are in a position to fully utilize existing tax benefits, and there is little incentive to invest. Current tax provisions also discriminate against junior mining companies.

Consequently, in the highly competitive environment within which the industry must operate, additional modification of the tax system would help to attract the mineral investment needed for Canada to achieve the potential for growth and employment creation inherent in the quality of Canadian mineral deposits.

Desirable changes in current tax policy, and the rationale for each, are set out in the following paragraphs. The discussion is divided into two sections. The first deals with problems of a longer-term nature that need to be addressed jointly by the federal and provincial governments. The second part deals with more urgent issues for which the federal government alone has responsibility.

Intergovernmental Issues

The movement towards greater policy coherence and the establishment of equitable maximum tax rates applicable to the mining industry are issues that can only be resolved through intergovernmental cooperation. The industry welcomes recent signs that the two senior levels of government are prepared to cooperate more closely and strongly commends this effort.

1. Stability and Federal/Provincial Harmonization

Investment in mineral exploration and development involves long timeframes. These long lead times complicate investment decision-making. As well, the cyclic nature of the industry poses a unique problem for decision-makers who must manage cash flow and investment accordingly. Finally, mining is a high-risk undertaking, subject to both market, geological, and technical uncertainty.

For these reasons, mineral investment is attracted to jurisdictions with stable, supportive and predictable policies. Uncertainty in this area is a strong disincentive to investment decision-making.

The harmonization of tax policies in Canada is complicated by the federal/provincial division of responsibilities and periodic variations in philosophy accompanying electoral change. Instability was at its worst following publication of the Carter Report and the violent changes in federal and provincial resource tax policies that occurred in the early 1970s.

Although this situation improved significantly following the federal/provincial accord reached in 1978/79, sudden changes in tax orientation continue to be of concern. In the last year, for example, substantial revisions to resource taxation have been proposed in Saskatchewan and New Brunswick, and several other provinces have announced their intention to release papers on resource taxation policy in the coming months. There has also been a lack of consistency between the tax policies advanced federally and those proposed in some provinces. The result has been, on occasion, for one initiative to negate another.

The industry believes that governments are aware of the competition for and mobility of capital and recognize the long lead times necessary to bring mining developments on-stream. To ensure that Canada receives a desirable level of mining investment, a high degree of harmony and predictability is required in the tax system. This, in turn, requires effective coordination between levels of government. The industry is ready to assist in the conduct of studies or in any other way to aid this process.

Recommendations

- To achieve greater stability and harmonization, federal and provincial governments should agree on a set of principles around which the tax system should be structured. In addition to reaching accord on an equitable level of taxation rates and the elimination of escalating tax systems (discussed in the next section), there is need for agreement on the following;

- The definition of income. At present, there are differences in the way the federal government and some provinces measure income that is subject to tax. At one time, efforts were made to harmonize these definitions, but progress appears to have ceased. The industry believes that the federal definition of income should be universally accepted as the appropriate base from which incentives should be deducted;

- Uniformity in allowable deductions. Business expenses are not always treated in the same manner for tax purposes. For example, interest charges are a legitimate business expense that should be deductible, but they are not recognized as such under most provincial mining tax legislation;

- Full carry-over of losses and investment tax credits. Taxes on the mining industry are increased if expenses actually incurred are not allowed for tax purposes or if losses incurred during a low business cycle cannot be carried forward or backward against taxes payable in profitable years. Recent federal measures to liberalize loss carry-back and carry-forward rules have helped. Further harmonization of the rules related to tax deductions and the application of losses by allowing full carry-over against income will clear up many of the problems of complexity and uncertainty in the existing system;

- Coordination and simplification of administration. Companies are subject to heavy administrative costs that result from the duplication of federal and provincial reporting requirements. Agreement on the points raised above could reduce the need for much of this overlap. In addition, efforts should be made to simplify and better coordinate information demands, the filing of tax returns, and the conduct of audits;

- <u>Management of "non-profit taxes and other government-mandated operating cost burdens</u>. See Chapter V, Industry Competitiveness and Government-Mandated Costs, for a full discussion of this item. When setting tax policy, governments must recognize the impact which cost burdens associated with non-profit taxes (municipal, capital, sales taxes, etc.), regulations and legislated programs can have on corporate profitability. Taken together, these levies constitute a major contribution by industry to government revenues and program objectives. Care must be taken by governments to avoid negating the effects of profit tax incentives by shifting revenue collection back to the operating level. For example, energy costs have increased in some operations from around five cents per pound of copper to almost twenty cents per pound, largely because of increases in government revenues derived from energy use and higher rates for hydro. This means that a 5 per cent increase in energy costs has roughly the same impact on industrial competitiveness that a 20 per cent increase would have had ten years ago. Thus, reducing government energy taxes and charges and controlling utility rate increases could significantly improve industry operating costs;

- <u>Profitability as the basis for taxation</u>. Royalties based on production volumes or sales revenue are an inequitable and discriminatory form of taxation. They limit the recovery of the resource in place, they fail to recognize the economic diversity of the industry, and they are not sensitive to changes in profitability which should be the real basis for taxation. Accordingly, the industry believes they should be eliminated;

- Consultation with industry. Full and early industry-government consultations are highly desirable before major shifts in tax policy are made. It is as important for governments to be aware of the consequences of specific policies, as it is for the mining industry to know the "rules of the game";

- Public awareness. Because powerful tax incentives have been put in place by governments to achieve specific types of industry performance, the actual taxes paid by corporations that are meeting government expectations may appear, in the public eye, to be lower than legislated tax rates might imply. To avoid negative public impressions, the industry suggests that governments publicize the fact that they use the tax system to achieve economic objectives, as well as to collect revenues. Companies which respond to government incentives are not evading the payment of taxes, but are merely acting within the rules and regulations set down by governments.

- Leadership. There appears to be growing recognition of the fact that a coherent federal/provincial approach is essential to industrial success. The new federal government will likely wish to take a leadership role in seeking greater harmonization. The industry believes the provinces will respond positively to a cooperative approach and would strongly support such efforts.

2. Lowering Statutory and Marginal Tax Rates

From an industry point of view, there is little doubt that the federal/provincial disputes of the early 1970s resulted in less than optimum rates of investment in Canada in a period of high mineral investment worldwide. Although the situation has improved, the industry has, nevertheless, been left in a position where

legislated tax rates have been greatly increased. Maximum marginal rates of taxation are often in the 60 per cent range and, in one case, can approach 90 per cent.

In most provinces, allowable deductions help to reduce the negative effects of high legislated tax rates. The benefits of such deductions are not always apparent to the prospective investor. The result is a tax system that is misleading and inordinately complex. This uneven tax treatment discriminates against mineral development and deflects investment elsewhere.

By reducing industry's retained earnings, high effective tax rates have helped shift investment from equity to debt, thus increasing industry's vulnerability to rising interest rates. As well, they have directly affected industry's ability to sustain expenditures on exploration, R & D, and productivity improvement.

Escalating tax systems, in which the rate increases as profit increases, are sometimes called "progressive" tax systems. They often contain high marginal tax rates. They fail to acknowledge the cyclic nature of the mining industry and the need for companies to be able to offset losses in depressed years by retaining an adequate portion of their earnings from the good years. Moreover, where graduated rate systems are based on absolute amounts of profit, they simply become a tax on "bigness" and are insensitive to capital invested.

The major source of problems related to high statutory and high marginal rates of taxation lies in provincial mining taxes. These amount to a third level of taxation on resource companies of a type not found in other industrial sectors, and it is in the application of mining taxes that escalating rate structures apply.

Recommendations

- Escalating provincial mining tax regimes should be replaced by a flat rate of tax on profits;

- To resolve the issue of high tax rates, federal and provincial statutory tax rates should be set so that, in total, they do not exceed the statutory rates applicable to manufacturing.

Federal Initiatives

In addition to providing leadership in efforts to harmonize federal and provincial tax policies, there are a number of changes the federal government can make to its own legislation that will substantially improve the performance of the minerals industry. Most of these changes involve the removal of restraints on the ability of the industry to fully utilize tax incentives that are already in place.

1. "Flow-Through" Tax Provisions

Favourable write-offs now exist to encourage investment in exploration and development. These write-offs reduce the after-tax costs of exploration and improve the rate of return for new mine investment.

Unfortunately, few mining companies are in a position to take full advantage of these provisions. Complete tax benefits are only available to those few companies in a strong profit position. Most other companies will have more write-offs than they can use against income. Thus, the actual incentive effects of current tax policy are less than those intended by the legislation.

This is particularly true for small companies operating essentially on an individual project (mine) basis, who lack any source of corporate income until after their mine comes on-stream. For such small companies, the after-tax costs of exploration are higher and the potential rates of return on mine development are considerably less than they would be if the same investment were undertaken by companies able to take full advantage of existing tax incentives. This discriminatory treatment is counter-productive, given the fact that junior mining companies play such a prominent and necessary role in the process of new mine discovery and development in Canada.

These deficiencies can be overcome by improving the operation of existing "flow-through" provisions applicable to exploration expenditures, and by extending the concept of "flow-through" to include several types of mine development costs that are not now covered.

With respect to junior mining companies, the object of these proposals is to improve their ability to raise capital and to compensate for their inability to use deductions by giving them the option of flowing through tax benefits to investors. These measures are necessary to sustain the important role of small companies in mineral exploration and development.

a) Improving Existing Flow-Through Provisions

"Flow-through" tax provisions allow investors to utilize tax write-offs that companies are unable to use.

Tax changes in the 1983 Budget significantly improved the attractiveness of "flow-through" shares by allowing investors to apply the tax benefits associated with Canadian exploration expenditures against non-resource-related income. The result is that the "flow-through" concept is now a powerful tax instrument for

attracting investment into mineral exploration. It is particularly well-suited to meeting the financing needs of junior companies and of any company in a loss position.

There are, however, several shortcomings in these arrangements that reduce their effectiveness and investment appeal. These limitations are generally related to the timing of exploration and investment expenditures, as detailed below.

The investor, for example, is only able to claim the deduction when the company actually makes expenditures on exploration: If the investment is made in 1984, but the funds are not spent until 1985, the investor will have to wait an extra year to claim the tax benefit, thus reducing its worth. As well, the investor does not actually receive company shares until the expenditures are made. This means the investor must bear the market risk related to the performance of the stock between the time the investment is made and when the stock comes into his possession.

In addition, the effect of the legislation on "flow-through" shares is that exploration companies act as agents for investors. Consequently the investor, rather than the company, carries the legal burden of responsibility for liability claims relating to the performance of the work.

The requirement to accept this double-barrelled level of market risk and liability deters many potential investors.

From a company point of view, questions of timing are also important. In practice, the need to encourage investment means that companies must guarantee to spend funds in the year in which exploration stock is issued. This arrangement is unduly restrictive. It fails to recognize the very real problems that can alter the timing of exploration programs (e.g. weather, geological discovery, changes in plans that result from initial results, equipment failure, labour problems, etc.), and can lead to the inefficient expenditure

of monies in order to meet obligations to investors. As well, many exploration programs are multi-year activities. This means companies must arrange for new stock issues each year, rather than just once at the beginning of a program.

Finally, flow-through shares issued for exploration cannot be redeemed by the company for at least five years. This regulatory requirement can add to company costs and reduce the appeal of the shares to potential investors.

The treatment of exploration investment contrasts sharply with similiar "flow-through" tax provisions for R & D. Under these arrangements, the investor receives company shares and related tax benefits immediately upon making the investment. Companies are also able to schedule activities without the "same-year" limitation on expenditure through the payment of a refundable tax.

Recommendations

- The provisions for flowing through exploration expenditures should be adjusted to accord with those applicable to R & D.

b) Expanding Flow-Through Provisions for Development Expenditures

A variety of "intangible" mine development expenses are eligible for flow-through, (e.g. shaft sinking and tunnelling required to provide access to deposits underground and the removal of overburden in open-pit operations). However, the depletion incentive arising from these expenditures can only be deducted against resource income. Since the average investor will not have any resource income, the earned depletion is usually lost.

Recommendations

- The depletion incentive for "intangible" mine development and investment should be eligible for deduction against any source of income.

2. Consolidated Tax Returns or Group Relief

For a variety of reasons, management may choose to operate their businesses through many separately incorporated companies. This can be disadvantageous from a tax point of view because write-offs and tax credits available in non-taxable companies often cannot be used by profitable companies in the group.

In the United States, a parent company is able to consolidate for tax purposes all U.S. companies which are at least 80 per cent owned. To achieve the same objective, the United Kingdom allows companies in a corporate group to assign their losses to profitable companies in the group.

In contrast, the Canadian income tax system taxes each company separately and does not allow the filing of consolidated tax returns for companies in a corporate group; it also does not recognize the concept of group relief.

In recent years, the Income Tax Act has been amended to make it easier for corporations to combine their separate operations without adverse tax consequences. However, to take advantage of the limited tax benefits that result, companies may have to be reorganized or reporting relationships between companies may have to be altered. As a minimum, these measures incur otherwise unnecessary legal and administrative costs; at worst, the changes required may simply be unacceptable, thus negating the receipt of tax benefits.

The federal government appears to be aware of the benefits of consolidated tax returns, but officials are concerned that such a system would be very complicated. From an industry perspective, this added complexity would be manageable compared to the hoops companies must now go through to take advantage of the application of a tax principle which governments implicitly seem to accept.

Recommendations

- The government should adopt a concept of group relief similar to that used in the United Kingdom or a system of consolidated tax returns similar to that now in place in the United States.

3. After-Tax Financing

The federal government allows the deduction of interest charges as a legitimate business expense. However, this tax deduction is not beneficial to firms, including junior mining companies, which have no taxable income. Consequently, the cost of loan capital for development is much higher and the expected rate of return commensurately lower for these companies vis a vis taxable corporations which can immediately deduct interest costs.

Prior to 1979, interest costs could be reduced through the use of term preferred shares and income debentures. Under the terms of these "after-tax" financing instruments, deductions for interest expenses could be transferred from a currently non-taxable borrower to a financial institution or other taxable corporate lender. The net result was that the after-tax cost of this loan capital was about the same as the after-tax cost of regular loans made to currently taxable corporate borrowers.

This advantage would be particularly attractive at present, when the survival of major producing mines is threatened by high real interest rates. However, the use of these instruments was severely restricted by the Budget of November 16, 1978, as they were being used extensively to finance non-productive investment activities for which they were not intended. For example, major corporations, including federal Crown corporations, were using them to finance takeovers of other corporations. In the process, Canadian chartered banks were perceived to be avoiding paying a fair share of income taxes.

Recommendations

- With suitable safeguards to prevent abuse, after-tax financing mechanisms should be reinstated. With respect to mining, the proceeds would be restricted for use exclusively to finance new mining projects in Canada or to re-finance existing mining and related activities.

4. Northern and Isolated Post Allowances

In order to attract workers to the high-cost, often isolated environment in Canada's North, a variety of allowances (housing, travel, etc.) have traditionally been required. The government has indicated its intention to tax these allowances. Although such incentives are least temporarily protected in existing operations by the recent Remission Order, similar provisions are now taxable in all new developments, thus adding significantly to the burden on employees and to new mine operating costs. To ensure that skilled labour continues to be available, this situation should be redressed.

Recommendations

- Permanently extend the Remission Order to all mines or provide personal tax deductions that would be available to all residents of Northern and isolated posts;

- Establish a working group drawn from government and the private sector to develop proposals on this difficult issue.

5. Other Issues

Recommendations

- Loss carry-over: deduction of exploration costs. Exploration costs must be deducted against income prior to deduction of losses. As a result, companies may not be able to fully utilize losses and/or tax credits which have time limitations on their use. Making the timing of exploration deductions optional would eliminate this anomaly;

- The definition of "exploration". Exploration carried out within the property boundaries of producing mines is generally not included in the definition of exploration for tax purposes, despite the essential nature of this work in terms of discovering and proving up new reserves. Thus, the definition of exploration should be expanded to include on-property exploration;

- Flow-through of investment tax credits. The federal tax system allows the flow-through of investment tax credits earned on some types of mine development costs. However, this vehicle is restrictive in that the amount of the flow-through credit is limited to 25 per cent of the share price and shares may not be redeemed for at least two years. As well, both the company and the investor must deduct the value of the tax credits from their asset base. These restrictions should be eased and only the investor should be required to deduct the value of the tax credits that have been "flowed through";

- Capital Cost Allowances. The November 1981 Budget introduced the so-called "half-year" rule, whereby taxpayers are only permitted to claim one-half of the normal capital cost allowances in the year of acquisition. This decision should be reversed;

- Successor rules. To facilitate corporate reorganization and the attendant utilization of available exploration and development tax deductions, the successor rules should be made less restrictive.

V: INDUSTRY COMPETITIVENESS AND GOVERNMENT-MANDATED COSTS

Introduction and Background

Governments have a pervasive influence on industry operating costs. A clear understanding of this fact and of the options for reducing government-imposed cost burdens is important in the competitive context in which the country now finds itself.

In the minerals area, harsh competition, soft commodity prices and slowly growing markets make productivity improvement essential to continued, large-scale participation in international mineral markets. This productivity imperative is not solely a task for the industry. While the private sector has the prime responsibility for adjusting to market pressures, government also has a role to play.

Indeed, because of the impact of governments on industry cost structures the task of maintaining international competitiveness is a national economic and social challenge. It can only be fully addressed if governments are effective and committed partners in the effort.

This chapter defines the nature of governments' influence on industry operating costs. It provides a rough indication of the magnitude of these impacts and of trends in the growth of government-imposed cost burdens. It offers general guidelines for lessening these cost impacts. Specific issues are addressed in more detail in other chapters in this submission.

The Extent of Mandated Cost Burdens

There are three categories of direct, government-imposed operating costs.

- The first is non-profit taxes. These include the share of energy costs made up by government levies; federal and provincial sales tax and duties paid on the importation of goods and services; municipal and school taxes; and a variety of other charges, such as the B.C. water tax and Manitoba's two per cent employment surcharge.

- The second category is legislated program costs, the main ones being Workers' Compensation, Unemployment Insurance, and the Canada Pension Plan.

- The cost of regulatory compliance is the third category.

It is also appropriate to identify personal income taxes paid by employees when referring to the portion of industry expenditures that flow through directly to government. Though moderated by the collective bargaining process, increases in personal income tax are generally translated into wage demands, and thus add to upward pressures on operating costs.

An attempt has been made to assess the cumulative impact of all of these cost burdens on the mining industry. The results are displayed in Table 1. The estimate is based on data assembled by the MAC for its submission to the Macdonald Commission. This study was rough and the results can only be taken as indicative of orders of magnitude. It appears that about 20 per cent of industry operating costs are directly attributable to government or flow immediately through to government. If the personal income tax payments paid by employees are included in the calculation, the figure is increased to around 30 per cent.

Table 1

Portion of Mining Industry Operating Costs Attributable to or Flowing to Government
(Average of Four Typical Operations)

Cost Category	Percent of Total Operating Cost	Government Share As Per Cent of Category	Government Share As Per Cent of Total Operating Cost
Energy and Fuels	15.6	22.8	3.6
Purchased Materials and Supplies	29.1	6.3	1.8
Other Expenses	9.2	21.8	2.0
Municipal Taxes	2.0	100.0	2.0
Contribution to Legislated Programs	2.4	100.0	2.4
Regulatory Costs	8.0	100.0	8.0
Sub-total	66.1	-	19.6
Salaries and Wages	33.9	26.3	8.9
TOTAL	100.0	-	28.5

Source: Mac submission to the Royal Commision on the Economic Union and Development Prospects for Canada, December1983.

Note: The present figures differ from the earlier submission because the estimated costs of regulatory compliance have been extracted from each of the other categories.

In addition, governments control other forms of cost burdens which industry must bear. In the mining industry, for example, regulated freight and port charges may account for over 50 per cent of the export price of major Canadian minerals such as coal and sulphur. Provincial and federal utilities also deliver energy and services on a regulated basis.

Thus, if costs in the total export price of some Canadian minerals are divided into those over which governments exercise control -- as contrasted with those which industry has the power to influence -- it is governments which have responsibility for controlling the majority of costs.

Moreover, government-mandated costs are the most rapidly growing source of industry costs. For example, in British Columbia between 1981 and 1982, provincial property taxes increased by one-third; water taxes were raised 400 per cent, and property and school taxes paid to municipalities went up 67 per cent.

In Quebec, increases of 48 per cent in electricity costs occurred in a one-year period and contributions to social programs increased 52 per cent in one year (1980-1981).

In Alberta over the past five years, mining companies have experienced increases of over 100 per cent for fuels, 80 per cent for electric power, 75 per cent for freight costs, and 60 per cent for property taxes. Industry contributions increased by 85 per cent for provincial health care schemes, 62 per cent for Unemployment Insurance, and 41 per cent for pension schemes.

Some might argue that such increases are required to offset the effects of inflation. But the following table shows that mandatory contributions to social programs have increased much faster than inflation over a ten-year period. (Note that, in constant dollars, an increase of zero per cent would just compensate for inflation.)

Table 2

Increases in Employers' Contributions to Social Programs
Per Employee, 1975 - 1984
(Constant 1984 Dollars)

Category	Percentage Increase
Workers' Compensation	204
Provincial Health Insurance	27
Unemployment Insurance	81
Canada Pension	35

Source: Falconbridge Limited

The pressure for continued escalation in government-mandated costs has not lessened.

- Water taxes in B. C. are scheduled for significant increase.

- Ontario has proposed hydro rate increases of 8 to 9 per cent in 1985.

- Oil is to move to world prices, dragging the administered price of gas along with it.

- The gas/oil pricing ratio in B. C. will increase.

- Major hydro rate increase are being proposed in the northern territories.

- Workers' Compensation rates in Ontario are expected to rise by 22 per cent in 1985.

- Noise regulations being contemplated could be prohibitively expensive, forcing companies to remove miners from the work site through more rapid automation.

- SO_2 emission control requirements could involve the expenditure of hundreds of millions of dollars or result in the closure of major smelting capacity.

- Other regulatory initiatives are also contemplated, ranging from the onerous (e.g. transportation and storage of dangerous goods) to the more manageable (e.g. equal opportunity employment legislation).

Mandated Costs and Industry Productivity

The mining industry sells its products internationally. Therefore it cannot control prices or pass on increased operating costs to consumers. Consequently, there is a direct link between the competitiveness of Canadian mineral exports and the costs of doing business in Canada. In these circumstances, the effects on industry of increases in government-mandated costs can be dramatic.

This point can be illustrated by reference to Cominco's major efforts to modernize its Trail and Kimberly, B. C. operations. Between 1977 and 1984, the Company spent over $400 million to modernize the zinc plant, mechanize the Sullivan Mine, and implement various environmental control projects. As a result of these expenditures

and other efforts, the Company was able to cut operating costs, increase production capacity, and hold the line on cost increases for consumables, very much in line with original investment expectations.

Despite these improvements in productivity and output, there has been no return on the Company's investment. Operating gains have been more than offset by increased taxes levied by various levels of government. In fact, in the period 1980 to 1984, non-profit tax increases associated with only three things -- water license fees, property taxes, and natural gas costs -- exceeded the operating cost gains the Company was able to bring about.

Looking to 1985, the situation facing Falconbridge in Ontario is typical of the problem which the industry as a whole must address. The combination of the proposed Hydro rate increases, together with the forecast 22 per cent increase in Workers' Compensation rates, will add five cents per pound to the production cost of nickel. In productivity terms, this means the Company will have to enhance productivity by 2.5 per cent, simply to stand still.

Reducing Government-Mandated Costs

While the problem of government-mandated cost burdens is easy to describe, it is tough to quantify. It is also extremely difficult to prescribe solutions.

The reason for this is that the problem is pervasive. It results from a great diversity of initiatives by all three levels of government that have wide impacts on industry operating costs. Thus, there is no single or easily-identifiable target that can provide a "quick-fix" solution. Remedies will require that all levels of government do many things differently, more efficiently, and at less cost.

The problem is also, in large measure, philosophical. It is not just the mining industry that is affected, but all industry. Thus, the belief exists that calls for relief from mandated costs simply indicate that the industry or company has lost the capacity to meet the legitimate costs of doing business in Canada.

The mining industry shares this philosophical dilemma; MAC member companies accept that industry must contribute its fair share to Canadian society. There are legitimate costs of doing business and the industry itself benefits from certain government expenditures. As well, the industry is committed to supporting social safety nets and protecting worker health and safety, and has developed a strong environmental protection ethic.

On the other hand, neither the industry nor the country has any option but to respond to market realities. If the mining industry is to remain competitive in international markets, government cost burdens must be reduced. In more general terms, the problem of mandated costs is at the core of the problem of national competitiveness and is the root cause of the present policy debate over the role and level of government spending which the economy can sustain.

For these reasons, the industry welcomes and commends the government for raising these issues in its Economic Statement and for issuing a call for public debate. It is in this context that the mining industry puts forward the following suggestions, in the full expectation that their implementation by governments will advance the economic and social well-being of Canadians.

Reduce government need for revenue

The problem of mandated costs is obviously partly related to the need of governments for revenue. Reductions in government spending will require a concerted, disciplined program for reducing the federal deficit.

Because attempts to draw more revenue from industry will reduce investments in jobs and growth creation, the deficit must be tackled through government spending restraint and the reallocation of spending priorities.

In its response to the interim report of the Macdonald Commission, the MAC suggested this problem could be approached by clearly distinguishing between the complementary roles and responsibilities of governments and industry. Specifically, it was suggested that highest government priority be assigned to dealing with labour adjustment through improved mechanisms for skill upgrading and enhanced labour mobility. These issues are discussed in more detail in Chapter III on Labour Markets and Human Resources.

As well, in drawing up priorities, government expenditures for industrial development and technological innovation should be restricted to incremental investment that results in real wealth creation. The application of these criteria to existing industry support programs, particularly support for declining industries, could result in significantly lower government expenditures.

Recommendations

- Reduce the federal deficit through a disciplined program of spending restraint and the reallocation of spending priorities;

- Clearly distinguish between government and private-sector responsibilities and limit government's involvement in the economy accordingly;

- Cut back on federal funding for industrial development and technological innovation by supporting only investment that is truly incremental and that results in self-sustaining real wealth creation;

Regulatory Reform

If meeting international competition is a national challenge, the nation as a whole must become more productive. Governments must, therefore, pursue efforts to lower the cost burdens associated with the direct regulation of the mining industry.

As well, the costs of essential goods and services delivered through regulated industries and public utilities could be reduced by more tough-minded management and regulatory reform. While private-sector corporations have lowered their costs by as much as 30 per cent to 40 per cent, rates charged by electric utilities, for example, increased sharply. There is little evidence that the management of such protected companies have applied rigorous cost-cutting measures comparable to those implemented by companies in international markets.

If the Canadian economy is to be efficient, higher standards of performance must be made to apply. Governments have the power and the obligation to put a cap on rate increases. The necessity to control costs must be made clear to regulated industry. Escalating costs must not be permitted nor must they be passed through to industrial users.

Recommendations

- Apply the same efficiency and productivity improvement criteria that drive private-sector management to the full slate of activities of government. (Specific suggestions for achieving these objectives are contained in Chapters IX on Regulatory Reform and VIII on Northern Mineral Development).

Non-profit Taxes and Government-legislated Program Costs

As a general rule, where governments raise revenues from industry, they should use profit-based taxes. In this respect, suggestions have been advanced in Chapter IV on Mineral Taxation for refining the existing corporate tax system to make it more effective in achieving government objectives, while equitably sharing the returns to invested capital.

In the last fifteen years, governments have increasingly shifted their efforts at revenue collection from profit taxes to the imposition of operating cost burdens. They have done this through hidden taxation on the goods and services on which industry relies and through the introduction of legislated programs requiring industry contributions. As argued above, the mining industry is unable to pass on operating cost increases to consumers. Consequently, these cost increases undermine competitiveness unless they are offset by productivity gains.

In some instances, the programs that industry must now fund on a mandatory basis are designed to deal with broad, social problems that are not industry-specific. Thus, it is inappropriate that industry should bear the major funding responsibility. Rather, these programs should be supported from general government revenue.

Industry recognizes that any resulting personal income tax increases will be translated into increased wage demands. However, the market can moderate this pressure and determine the level of wage demands that can be paid through the collective bargaining process. This is not the case with respect to mandatory contributions to legislated programs. This issue is dealt with, in part, in the discussion of the Unemployment Insurance Program in Chapter III on Labour Markets and Human Resources.

Recommendations

- Implement the proposals in Chapter IV on Mineral Taxation;

- As a general rule, raise government revenues through profit-based taxes, rather than through the application of "non-profit taxes";

- Avoid imposing on industry the costs of meeting broad social objectives that should be borne from general revenue.

VI: EXPORT MARKETS AND TRADE POLICY

Minerals are fundamental to Canada's trade. In 1982 alone, the industry's trade surplus more than offset the cumulative deficit from the textile, clothing, chemicals, computer, communications, and electronics sectors. Canadian minerals typically account for nearly 20 per cent of Canada's total exports. More than 80 per cent of Canadian production is sold to over 100 countries.

As Table 3 indicates, the U.S.A. is our major market by a wide margin, followed by Japan, the EEC, and to a lesser degree some of the newly-industrialized countries. Because of structural changes in supply and demand, Canada has experienced a relative decline in its share of these major markets. But the industry has mobilized all its efforts to restore its comparative advantage. Further improvement is possible. As a result, mineral trade is expected to play a key part in Canada's future growth.

Table 3

Distribution of Canadian Exports of Minerals, by Market, 1962 to 1981

(Per Cent)

	USA	EEC	Japan	Other
1962	50.6	27.6	3.3	18.5
1965	53.2	28.5	3.9	14.6
1970	45.9	30.2	9.1	14.8
1975	49.9	26.2	9.2	14.7
1978	55.2	14.7	8.4	21.7
1979	57.9	17.9	9.4	14.8
1980	53.7	19.7	8.2	18.4
1981	59.7	15.8	6.9	17.6

Given the importance of exports to the mining industry, market access, particularly to the U.S.A., is a continuing priority[1].

[1] Canada's Non-fuel Mineral and Metal Exports to the U.S.A. amounted to $7.3 billion in 1984, while such imports from the U.S.A. were some $4.2 billion.

This market access is being increasingly challenged. In the U.S.A., large trade deficits and pressures to preserve local jobs have triggered a protectionist response as evidenced by recent actions under Section 201 of the U.S. International Trade Act. In the Third World, similar pressures have led to a series of currency devaluations which have improved the competitive position of their producers. A variety of non-tariff impediments, such as special labelling and standards requirements, have added to the landscape of protectionism.

Moreover, over the last two decades, the international marketing system has become increasingly cluttered with a range of agreements and trading practices that curtail open access and fair competition in a growing portion of world markets. It will be important to combat or offset these trends in order to protect the $13 billion yearly contribution to Canadian GNP and the many thousands of Canadian jobs that depend on bringing mineral products from mines to markets.

Features of a Trading Strategy

As the industry pushes to maintain present markets and seek out new opportunities, an effective trading strategy is needed to support these efforts.

The objective of such a strategy should be to maximize the future market potential and performance of the sector. To this end, it will be important for the Government to undertake initiatives that:

- press for improved and more secure access for mineral commodities by seeking lower tariffs and the removal or reduction of non-tariff barriers;

- promote the industry as a reliable and competent supplier of minerals;

- provide improved information on mineral markets to Canadians;

- encourage new end uses for mineral commodities in order to "create the market for minerals".

Market Access and Trade Barriers

1. Multilateral

One of the principal avenues to address tariff and non-tariff barriers and secure commitment to reduce them from all trading partners is the General Agreement on Tariffs and Trade (GATT). Cooperative work between industry and government to identify such access barriers is very useful. The benefits of such an approach were seen recently as a result of the deliberations of the MAC/EMR Task Force on International Mineral Markets. Some fourteen non-tariff barriers were identified during this industry/government consultation process which had not previously been included in the Canadian government's trade position as advanced through the GATT.

From a Canadian industry perspective, one of the anomalies of the GATT is the practice of according preferential tariff treatment to developing countries. Under the Generalized System of Preferences (GSP), preferential trade is now well over $15 billion. Under this system, the developed economies accord to many mineral-exporting developing countries, duty-free entry of their exports. This system places Canadian mineral exports at a competitive disadvantage in developed markets.

Of further concern with respect to GATT is the impact of the recent decision by the Canadian government to adopt the Harmonized System of Tariff Classification (HS). The HS is a highly structured, enclosed tariff classification system, supported by

interpretative rules and legal and explanatory notes covering all major commodities in world trade. To ensure that the definitions, descriptions and associated duty levels assigned to each product outlined in the HS reflect Canadian availability and technology, it will be important for government and industry to scrutinize the transition into the new tariff system.

Preliminary assessments suggest that the new system, being built around the EEC economy, is deficient in several areas for Canadian application. In these tariff deliberations, it will be important to ensure that the lowest possible duty levels are assigned to machinery imports and that no tariff impediment is placed on the sale of Canadian minerals and metals to our major markets.

Other non-GATT multilateral arrangements of concern are regional trading blocs that exclude or reduce imports from Canada, as well as special arrangements such as the Lomé Convention that favour other suppliers of minerals.

The mining industry is realistic about its expectations with regard to multilateral trade negotiations and the length of time that may be required before tangible results are seen. Yet we encourage the new government to assign a high priority to its efforts to achieve improved market access through the GATT.

Recommendation

- Continue to press through GATT for improved access to all markets. Special emphasis should be placed on the current discussions on non-ferrous metals.

2. Bilateral

There are also opportunities to achieve a more secure and enhanced market access for minerals on a bilateral basis, most importantly with our major market, the U.S.A. Concerns that must be addressed include the mushrooming U.S. trade deficit along with claims of injury from U.S. industry, which have spawned a number of restrictive trade bills in Congress. While these bills are not specifically aimed at Canadian imports, they are likely to have a detrimental effect on Canada's export trade unless U.S. authorities are prepared to exempt Canada from any recommended restrictions.

The Canadian mining industry believes that a more positive approach would work towards establishing bilateral free trade agreements along sectoral lines with major customers. We recognize that such an approach is complex and difficult because of the need to find self-balancing sectors and ensure that any arrangements are consistent with the GATT. However, such an approach does appear to be an effective method for combating mounting protectionism. Its major advantage is that it would enable Canada to obtain exemption from specific restrictive actions.

Recommendations

- We encourage the Canadian government to work with industry and the U.S.A. to explore the development of a bilateral free trade zone for the non-ferrous sector and the possible expansion of this zone to include all minerals and mining-related equipment and supplies. As a first step, we recommend that a joint private-sector/federal government mining task force, co-chaired by the Minister for International Trade or the Minister of State (Mines) and a senior mining executive, be established to consider carefully the full implications of the development of such a free trade zone for minerals.

- As negotiations proceed with regard to the development of free trade zones, a special fund should be made available by the Canadian government to help offset litigation costs incurred by a company when it has had to become involved in combating restrictive trade practices. If the injured party did not have to bear the brunt of the legal costs, companies would be encouraged to take action which ultimately would benefit the whole industry.

3. Domestic Barriers to International Trade

Canada has set out guidelines relating to industrial benefits that are to flow to Canada when foreign suppliers bid on large Canadian government contracts. Examples of such contracts include defence items such as the Leopard tank and the Canadian frigate program. The foreign supplier must ensure maximum Canadian content in the project and/or contracts for offsetting purchases from Canada. Unfortunately, Canadian policy to date has been to exclude the offsetting purchase of mineral commodities from consideration as an industrial benefit, even when the purchases are truly incremental.

A second obstacle is the existence, in several provinces, of export restrictions on sales of mineral ores and concentrates outside their jurisdictions. Such measures work against economic efficiency and reduce market opportunity.

Recommendations

- The purchase of Canadian mineral commodities should be included in the determination of industrial benefits;

- Provinces should consider removal of restrictions on export of mineral ores and concentrates.

Trade Promotion

The perception of Canada's ability to reliably supply cost-competitive products to markets will have a profound effect on trade opportunities. We regret that over the years the image of Canada as a supplier has been tarnished. Federal/provincial conflicts and differing perceptions of resource management have weakened Canada's international posture. As a result, confusion has been created in the minds of our trading partners over the future direction of mineral development in Canada. It appears that such conflicts and confusions have been put behind us. Canadians have the will to pull together for economic renewal. We need to express that determination in a strong, coordinated effort to promote the industry as a world-class competitor.

A more equitable distribution is required of Trade Commissioners in relation to the importance of a given country as a market for, or a supplier of, minerals. This would increase the support services offered the mining sector in major mineral markets. It would also encourage a much less passive approach to trade facilitation and aid adaptation to new market conditions.

Recommendations

- Promotional programs using export awards, and designating October as "Export Trade Month", should be supported fully;

- Increase mineral specialist coverage at foreign posts in major mineral markets.

Market Information

Through its posts abroad, the Department of External Affairs is positioned to obtain mineral market information and make it available to other government departments, provincial governments, interest groups such as organized labour, business and the public.

In the interests of economic renewal, Canadians must have an accurate understanding of the competitive environment. For example, items such as foreign government policies, the investment plans of competing producers, and changes in end-use markets should be reported.

This service is partly in place. But it could be enhanced at no cost by converting some political-social reporting positions into mineral-economics reporting positions. This proposed conversion would take place selectively in countries that are major actors in mineral markets as suppliers or consumers.

Improved methods of transmitting market information would also be valuable. Reporting links to industry and labour, as well as other interest groups, could be strengthened and better structured. A pilot program of mineral missions comprising industry, labour, provincial and federal representatives, has been sponsored by External Affairs and the Department of Energy, Mines and Resources. The objectives of this program could be clarified and its success evaluated. This or other methods of improving Canadian knowledge of world markets could be strengthened.

Greater attention should also be devoted to the development of information and data systems, possibly computerized, to provide information on export market opportunities in an expeditious way.

These are complex and time-consuming tasks, but if properly utilized, such devices can assist in enhancing the country's market knowledge and trade performance.

Aside from its importance in informing Canadians, good market information aids the transparency and efficient functioning of mineral markets. This aspect is dealt with in Chapter VII on International Institutional Arrangements and Foreign Policy, in the discussion of "International Commodity and Producer/Consumer Groups".

Recommendations

- Increase mineral reporting coverage at posts in countries that are major actors in mineral supply or consumption, primarily by converting positions now devoted to political-social reporting;

- Clarify the objectives and evaluate the success of the existing pilot program of mineral missions. Depending on the results of such evaluation, the program should be extended or terminated;

- Examine the possibility of improved data systems for dissemination of market information.

New End-Uses

An often neglected yet effective trading strategy is the support of initiatives which improve end-use demand for minerals. Substitution has already taken its toll of many commodities. However, more positive attitudes towards mineral product research, development, and promotion are underway. Examples are the Gold, Nickel and Asbestos Institutes, as well as the International Copper Research Association and the International Lead/Zinc Research Organization.

We commend the Canadian government for its support of the Asbestos Institute, and believe that all opportunities should be sought to increase worldwide product development for minerals on a joint-venture basis with public and private-sector organizations. Initiatives could span the promotion and support of existing products, the development of data banks to provide readily accessible information on specifications and properties of various mineral commodities, as well as research into new product development.

The Trade Commissioner service could play a role in the provision of such information. These efforts would help stimulate demand for mineral products and help create the market for minerals.

Recommendations

- Continue to encourage the formation of joint industry agencies for product research, promotion, and end-use development. Where appropriate, consider government financial support of and participation in such agencies.

The development of a supportive trade policy should be high on the agenda for Canada's "New Direction". Improved market access and trade promotion, when combined with the comparative advantage we enjoy in the mineral sector, will bring many benefits to thousands of Canadians in the years ahead.

VII: INTERNATIONAL INSTITUTIONAL ARRANGEMENTS AND FOREIGN POLICY

Private sector growth, trade expansion and increased efficiency were identified in "A New Direction For Canada" as integral parts of the nation's agenda for economic renewal. Foreign policy should support this agenda and be based on a clear notion of the nature, extent and scope of domestic economic objectives.

Institutional Arrangements

An important avenue to enhance the contributions of the mineral sector to Canada's economic growth and development is through the wide network of international institutions and arrangements which have evolved since World War II.

These institutions, notably the various offshoots of the United Nations and world financial bodies, have come to play an important role in promoting resource development in Third World countries.

No one can question the intent of these efforts and the mining industry supports measures to enable developing countries to diversify their productive capacity and foster skills to provide more industrial goods, both for domestic use and export purposes. However, the apparent result of the activities of international financial institutions and government programs that directly or indirectly assist mineral development abroad has been to create a condition of over-supply in many mineral commodities. These are among the factors that have encouraged a number of Third World countries to over-extend their borrowing capacity, and generally create disorder in financial and commodity markets.

Free market producers have had to bear the burden of correcting worldwide excess supply because Third World producers, who face foreign exchange and employment pressures, have maintained production in the face of falling prices.

To provide further detail, Exhibit 2 sets out examples of financing for major copper projects in Third World countries. As noted from the project information in Exhibit 2, 15 per cent to 20 per cent of the financing package (i.e. World Bank, export credits from EDC) is typically of a "soft" or concessionary nature. In some projects the ratio has been much higher. As well, residual financing requirements remaining after deducting concessionary loans are much more attractive to private-sector banks than the total loan requirements of a similar project which has no concessionary loans. It is well known that copper has been in over-supply for a number of years. We believe there is a connection between excess supply and concessionary financing.

The industry is also concerned that subsidized or preferential sea-bed mining of manganese nodules could drastically distort mineral markets in future. Canada has recently signed, but not yet ratified, the United Nations Law of the Sea treaty. This treaty contains provisions that may be beneficial in some areas including fishing. But other provisions are potentially harmful to the Canadian mining industry. If ratified, the treaty would obligate its members to provide funds to subsidize a mining arm of the United Nations.

This arm, known as "The Enterprise", would mine nodules from the deep sea-bed, competing unfairly with land based miners. It would receive interest-free financing and exemption from taxation. It would also obtain access to all available technology, mine sites, and relevant data thereon free of charge from participating ocean miners.

Exhibit 2

Examples of Financing Major Copper Projects in Third World Countries

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1. Bougainville Mine in Papua New Guinea
(Came on-stream in 1972 with capacity of 200,000 t/yr Cu conc)

US $140	million	equity capital (mainly Bougainville Copper Pty Ltd. but with 20% PNG government interest)
190	million	commercial loans from U.S.A. and European banks (i.e. 10.6% LIBOR plus 1.5%)
150	million	export credits from U.S.A. and Japanese Export-Import Banks plus other sources for equipment purchases (i.e. 6.5% to 8.2%)
US $480		

2. Centromin's Cobriza Mine in Peru
(1982 expansion from 17,000 to 57,000 tonnes Cu/yr)

US $ 29.9	million	equity capital by Centromin (largely owned by government)
55.0	million	commercial loan from Wells Fargo Bank
63.4	million	concessional loan from Inter-American Dev. Bank
36.5	million	concessional loan from World Bank
33.8	million	concessional loan from Peruvian State Dev. Agency
3.1	million	export credits from Eximbank
37.0	million	grant from Peruvian Government
2.5	million	grant from Swedish Government
US $261.0		

3. Gecamines Expansion in Zaire
(Started in 1975, completed in 1978)

US $240	million	equity capital and cash from Gecamines (government owned)
20	million	concessional loan from European Investment Bank (i.e. 10% with 4-year grace)
100	million	concessional loan from Libyan Arab Foreign Bank (i.e. 10% with 4-year grace)
100	million	concessional loan from World Bank (i.e. 8% with 4-year grace)
US $460		

4. Tintaya S.A. Mines in Peru
(New mine scheduled for completion in 1984 with capacity of 160,000 t/yr copper concentrates)

US $ 65	million	equity capital by Tintaya, special (i.e. Crown corporation of the Peruvian government)
115	million	commercial loans, mainly Canadian banks
100	million	export credits from EDC
US $280		

By ratifying the treaty, Canada would stand to lose in two ways. First, it would pay to subsidize sea-bed mineral production. Secondly, domestic operations would suffer, resulting in loss of jobs and wealth.

"A New Direction for Canada" points to the need for domestic investment decisions to be made on economic grounds and not skewed by a subsidy element. We believe that this principle should be applied to Canadian policy and program involvement in overseas activities.

Canadian export financing support for the equipment and service sectors may compound the problem of excess mineral supply. Concessionary financing is sometimes provided for mineral projects by Export Development Corporation (EDC). To the extent that mineral investment decisions are distorted, this support of some other Canadian industrial sectors may adversely affect the mineral sector.

Similarly, Canadian International Development Agency has given assistance for mineral exploration and infrastructure connected with mineral investment projects. Industry executives are concerned that such assistance distorts investment decisions and encourages uneconomic mineral production. If so, this works against Canada's interest and against the restoration of properly-functioning mineral markets.

Obviously the provision of soft financing does have a bearing on how the investment community assesses developmental prospects and often leads to "go" decisions on projects which would not warrant investment, if financed at commercial rates. New projects are too often assessed in reference to the needs of a national economy, without adequate consideration of world commodity markets. Ironically, the promotion of uneconomic mineral production, and its depressing effect on world mineral prices have the perverse effect of transferring wealth from less developed producing countries to their developed-nation customers.

Recommendations

- Canadian policies should devote more attention to the degree to which concessional financing and export credit financing influence project assessment and lead to price distortions in commodity markets;

- Canada should re-examine its current position of supporting the United Nations Law of the Sea treaty. The government should undertake a full review, in consultation with all affected interests, of the costs and benefits of ratification;

- Guidelines should be developed to regulate Canadian government support for mineral development abroad, as well as the position we adopt within international and regional development banks;

- Consider establishing a joint private-sector/ government "International Mineral Resource Investment Board" to develop a framework for Canadian participation in overseas mineral projects. Details of this mechanism, guidelines, and authority of this body are set out in Exhibit 3.

- With industry, EMR should provide improved market information to international lending agencies, export development banks, and commercial banks to make them aware of the supply/demand outlook for mineral commodities. The MAC/EMR Task Force on International Mineral Markets, formed in January 1982, should be encouraged to play an active role in this exchange.

Exhibit 3
Determining the Canadian Approach to Overseas Mineral Development

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Mechanism

A Joint private-sector/government "International Mineral Resource Investment Board" co-chaired by the Minister of State (Mines) and a senior mining executive, mandated to:

- assess the economic and social tradeoffs of Canadian support of mineral projects abroad, with particular reference to CIDA, and the EDC;

- provide instructions to Canadian representatives abroad with regard to the Canadian position in all international agencies involved in the funding of mining projects.

Guidelines

- Projects should meet commercial viability tests and be based on realistic market demand forecasts;

- Funding support would be subject to domestic cost benefit analysis, with thresholds established beyond which Canada would decline to participate;

- EDC financing would not be available for projects which would increase commodity supply in such a way as to adversely affect Canada's market share;

- A list of sensitive minerals would be determined which in view of their importance to Canada's market position and economic and regional employment would not be eligible for concessionary financing;

- A list of minerals, not produced in Canada, would be developed as a target for aid and other types of support;

- Preference would be given to the support of activities to encourage end-use development and manufacturing;

- Projects which would supply domestic requirements would continue to be eligible for assistance, provided all other criteria are met.

Authority

- No mineral development support would be provided to mineral projects without the approval of the Board.

International Commodity and Producer/Consumer Groups

International commodity groups and producer/consumer groups offer a third framework to deploy foreign policy instruments in support of domestic objectives. In past years, such intergovernmental groups as the International Lead and Zinc Study Group (ILZSG) have served as an effective channel to disseminate commodity information on an international basis.

This information helps permit markets to function properly. Good statistics are provided on production, consumption, and inventories. Information is exchanged on investment plans and on plant closures. As a result of such market "transparency", the cyclic tendency is moderated. Some of the decision time lags are eliminated or shortened. Investments are timed to correspond with consumption needs. Surpluses and shortages are reduced and price swings are dampened.

Both producer countries and consumer countries are members. Each member government fields a delegation which included executives from producing or consuming firms. The United Nations sanctions and sponsors the ILZSG, but the United Nations Commission on Trade and Development (UNCTAD) is not involved. The Canadian industry favours the non-involvement of UNCTAD because the body has become highly politicized.

The Canadian government, with the support of industry, is currently working towards the formation of a similar study group for nickel. This potential body, tentatively known as the International Nickel Discussion Group, is also favoured by Australia and other major mineral-producing and mineral-consuming nations.

The opportunity for dialogue which such study groups provide tends to improve the exchange of information between private-sector companies and their respective governments. They foster more accurate commodity assessment by companies and the respective government thus paving the way for better business

decisions on a voluntary basis. Finally, they generally promote a more positive trading environment. These groups are an integral part of the pursuit of domestic policies.

Recommendations

- Where appropriate, the continued use and expansion of international commodity forums should be encouraged as an information exchange mechanism, as well as an avenue to undertake specialized studies and surveys of various aspects of the commodity question. These should be encouraged to have as wide a membership as possible, but should not involve UNCTAD beyond a secretarial service level;

- Careful consideration should be given to developing study groups for nickel and copper, similar to ILZSG, in order to foster a better international understanding of markets for these metals.

Canada's Place in the North-South Dialogue

Perhaps the overriding consideration in any position that Canada may take in the international arena is an understanding of Canada's place among the world's mineral resource-producing countries.

Canada can be viewed as one of a distinct middle grouping of countries including Australia and South Africa. Although a highly-industrialized nation and importer of certain natural resources, Canada maintains a dependence on exports of primary commodities similar to that of some less developed countries. As a result, while sharing some of the concerns and problems of the highly-industrialized resource-deficient countries (U.S.A., the European Community and Japan), Canada is affected by many of the resource management and trade dependency problems that plague Third World countries.

It follows that Canadian trade and foreign policy interests are also unique and different in kind from those of our major trading partners. And it has been on this basis that we have advanced our trade and development recommendations.

An example may serve to clarify this point. Consider the case of concessionary financing by the Federal Republic of Germany (FRG) in support of equipment sales to an iron ore mining project in Brazil. For FRG, the loan serves two purposes. First, it helps to sell German equipment. Secondly, it helps to fill Germany's raw material needs by increasing the supply of iron ore, a commodity imported by FRG from Brazil.

Unfortunately for Canada, this loan serves to depress the price of iron ore. The interests of Canadian iron ore producers, who are competing with Brazil for iron ore sales in FRG, are damaged.

Clearly, it does not make sense for Canada to have the same aid and export financing policies as FRG. The same complementarity does not exist. Canadian equipment export sales may be assisted, but our primary industries are damaged.

In stressing Canada's special position, we are not suggesting that Canada pursue a one-dimensional policy. A balanced viewpoint between the concerns of the mining sector and the need for economic development in the Third World must be struck. Aid funds and other types of support might be better targeted to assist developing countries to do more about the development of markets for their products, and for their production of manufactured or imported items, rather than encouraging non-economic production of raw materials.

Canada's place in the North-South dialogue demands recognition by policy-makers at the domestic and international level, as new directions are sought to encourage private-sector growth, trade expansion and increased efficiency.

VIII: NORTHERN MINERAL DEVELOPMENT

Introduction

This chapter sets out a range of actions that can be taken by government to complement efforts by the Canadian mining industry to improve competitiveness and to build a stronger, self-sustaining economy in lands north of 60°.

The history of mining is uniquely associated with Canada's North. In modern times, too, mining has been the basic engine of the economy. It typically accounts for over 80 per cent of goods production and the vast preponderance of non-government income in both the Yukon and the Northwest Territories.

Recently, its leading position in the Yukon economy has slipped. The chief reason is the closure of one major mine, due to several factors including inadequate international prices for zinc and lead. At the same time, mines in the Northwest Territories have grown in number and significance. A major concern is that the remaining undoubted potential of the North will not be realized because of a variety of domestic factors that have diminished the relative appeal of mineral investment in Canada's North.

And there is real potential. The land area is vast; the mineral endowment high; the industry is committed to northern development, and the continued profitability of some operations -- even in the face of extremely adverse economic conditions -- attests to the long-term viability of northern mining. As well, existing mining operations indicate that mineral development can take place with minimal environmental disruption and bring social and economic benefits to northern peoples and to Canada as a whole.

This chapter deals with four major issues:

- land use and tenure;
- operating costs and special northern requirements;
- regulatory requirements and consultation;
- reorganization of DIAND.

Proposals are advanced to streamline and simplify the project approvals process, to eliminate administrative duplication, and to recognize the devolution of political and administrative powers. As well, there are recommendations to strengthen arrangements for ongoing government/industry consultation and for contacts between industry and the Minister.

Most of the recommendations made in the paper involve policy decisions and administrative changes that are designed to create a more favourable climate for northern mineral development and to streamline regulatory processes. On the other hand -- notably in the area of tax incentives for northern residents and the call for a stronger commitment to infrastructure development -- some increase in government expenditure is proposed. It is difficult to quantify these costs, since they will depend ultimately on the specific arrangements that are put in place. Nevertheless, direct contributions to industry are likely to be small and, over time, more than offset by increased revenues associated with greater mineral investment.

In advancing proposals for increased government expenditures on northern development, the industry is aware that the North is already the most heavily subsidized region in the country. There are reasons for this, including the need to spread the costs of government services and infrastructure over a small population and a

high level of transfer payments to native peoples. Regardless of the explanation, however, the pattern of dependency cannot be broken unless economic development in the North is accelerated. In the last analysis, the case for extending incentives to encourage greater industrial activity is based on the expectation that, if successful, the level of per capita subsidy will eventually decrease.

Land Use and Tenure

Uncertainty surrounding government intentions on land use constrains investment in mineral exploration and development. The development of a mine is a long-term process. Thus, continuing access to land is crucial to the future viability of the industry. For this reason, mining companies are unwilling to begin exploration efforts in areas where development might eventually be curtailed. This problem is particularly acute in Canada's North.

Clarification of the industry's long-term access to land for exploration purposes, and the provision of reasonable guarantees for the subsequent right to develop, are necessary conditions for a major expansion of mineral investment in Canada's North.

The Report of the Task Force on Northern Conservation was not released in time to be considered by the industry in drafting the proposals that follow. However, it is worth noting that the Task Force did acknowledge the need to establish a reasonable balance between conservation and development objectives. On the other hand, its recommendations involve the introduction of extremely complex planning mechanisms that could take several years to set up. It will then require a much longer period for these planning systems to lead to specific proposals regarding land use. Thus, care will have to be taken to ensure that consideration of the Task Force recommendations does not delay development of the type of supportive policy framework required to get northern mining moving again.

1. Native Land Claims

The mining industry recognizes the validity of native peoples' demands for a land base, for provisions which protect their cultural and traditional pursuits and for access to business and employment opportunities associated with industrial activity in the North. In addition, the industry looks forward with some optimism to the settlement of northern native claims and to joint ventures with northern economic development organizations.

The optimism is, however, tempered by concerns about the extent of restrictions on land access in claim settlements, whether these arise from relinquishing crown rights, or, as in the case of the Western Arctic settlement, the establishment of various administrative and advisory structures.

Recommendations

- High priority must continue to be given to the objective of rapidly settling outstanding native land claims in a fair, equitable and non-divisive manner;

- Claim settlements should deviate as little as possible from the dual principles of crown ownership of land and mineral rights, and free access to explore with the right to extract;

- Claim settlements should be designed so as not to add to the complexity of regulatory and policy approval processes.

2. Parks

There are now more proposals for new parks North of 60° than can reasonably be evaluated over the coming decade.

Prevailing policy, which is enshrined in legislation, is to exclude mining development within park boundaries. Consequently, once parks are established, any potential mineral development opportunities are effectively lost. This occurs regardless of the quality of the mineral potential that might exist, and in spite of growing evidence that policies of multiple land use need not undermine the achievement of park objectives. For example, experience has demonstrated the practicality of using sections of park land for industrial use or removing some sections and adding equal amounts in other areas.

At the present time, little effort is made to assess mineral resource potential before hasty decisions on park boundaries are reached. This most recently happened with the establishment of the Northern Yukon Park boundary that was linked at the last minute to the Committee For Original Peoples' Entitlement (COPE) settlement. The result was that the Mount Sedgewick area was incorporated within the park, at the expense of possible further mineral development.

Mineral resource assessment is strongly influenced by both economics and by advances in exploration techniques and extractive metallurgy. For example, the cost/benefit assessment of known deposits can be sharply enhanced by changes in infrastructure that take place over time (e.g. transportation, cost and availability of power). The discovery of ore bodies may also have to await the development of more effective exploration techniques.

For these reasons, the type of evaluation that should be done prior to decisions on new park areas will always be indicative rather than definitive. Nevertheless, in relation to any minimum acceptable standard, this prior resource evaluation work is currently inadequate. It is funded out of the operating budget of the Geological Survey of Canada (GSC) within the Department of Energy, Mines and Resources. Expenditure of these funds appears to be governed by a timetable dictated by Parks Canada, rather than by the time required to conduct a proper resource evaluation program.

The effort is further hampered by an undisciplined and inconsistent process for designating target areas and rather hasty decision-making. This situation persists -- in part at least -- because geological resource assessment is not fully accepted as a necessary and legitimate element in the evaluation of new park proposals.

Recommendations

- Re-examine alienated areas such as parks, game preserves and wilderness areas to identify possible economic natural resource targets. The re-examination should include such methods as geological mapping, geochemical sampling, airborne geophysical surveys, etc. If necessary, amend legislation to allow the rearrangement of boundaries to free lands with economic potential, or allow subsequent development to take place subject to appropriate, site-specific conditions and guarantees.

- To avoid the hasty establishment of park boundaries, the development of new park proposals should proceed in concert with more intensive mineral resource assessment of target areas, conducted by private-sector contractors under the direction of the GSC and charged to the cost of creating parks. Continuing consultation with the mining industry during this period is required. Claims staked in eventual park areas must retain the rights and privileges contained in the applicable mining legislation.

3. International Biological Preserves

Over a hundred potential International Biological Preserves (IBPs) have been tentatively identified in the North. These sites have no official status and their evolution and eventual confirmation will likely be a long-term activity. In the meantime, their existence raises a serious question in the minds of potential developers about the security of their right to develop in or adjacent to these areas. This is particularly crucial with respect to mineralized areas with easy access to tidewater, an essential element in ensuring the economic viability of many Northern mineral deposits. IBP sites have been a factor, together with extensive land use surveys and planning initiatives, in deterring industry initiatives to follow up on the success of the Nanisivik and Polaris projects.

Recommendations

- The list of potential IBP sites should be reviewed. Unique, important sites should be clearly designated; land areas affected should be defined so as to keep the amount of land lost to economic development to a minimum. All other areas should be freed for mineral exploration and development.

- In areas where a compelling case can be made for the establishment of an IBP site but no decision has been taken, mineral exploration and mine development in the vicinity should be allowed to proceed on the basis of appropriate performance agreements negotiated by the project proponent and the government.

4. Land-use Planning

The Department of Indian Affairs and Northern Development (DIAND) has long debated the merits of establishing a major land use planning regime for the entire area north of 60°. There may be long-term benefits from this type of initiative, but the immediate need is not compelling. In the past ten years, the current systems managed quite well the establishment of four mines, two gas fields and pipelines, one oil field and pipeline, major road construction, a railway, several wildlife preserves and massive oil and gas exploration.

In most areas of the North, primary land use activities are already well established. Thus, rather than simplifying northern development, an overblown land use planning system could unnecessarily complicate the regulatory system.

In addition, the underlying assumption in the proposed planning system appears to be that once information on potential land uses is collected, the north can be "zoned" for particular types of activity. This reasoning is faulty as far as geological resource assessment is concerned.

The mining industry recognizes that economic development may be restricted or even prohibited in certain areas. However, industry is opposed, in principle, to the withdrawal of areas from exploration on the basis of single-purpose land use planning decisions. It is particularly important that these decisions take into account the potential for future mineral development. Mineral exploration is

dependent on the confidence investors have in their eventual right to develop.

As well, as suggested above, today's resource evaluations can be indicative, but seldom "final". Thus, the land use planning process requires solid data on competing economic opportunities if it is to be meaningful, but the process itself deflects the investment required to collect the data. Then, to the extent that data is available at a particular point in time, it may vastly understate the long-term mineral development potential of an area.

For these reasons, the single purpose emphasis in the debate surrounding land-use planning adds greatly to the uncertainty that already exists in the North over the longer-term status of mineral investment.

Recommendations

- Adopt multiple-use concepts to guide land-use planning decisions;

- Establish as a guiding principle, the "right to develop" mineral deposits in areas where exploration activity has been authorized, regardless of subsequent land-use decisions (i.e. give binding assurances to exploration companies that future land-use decisions will not jeopardize their investment on a retroactive basis);

- Replace the elaborate Ottawa-based land use planning structure proposed by DIAND with northern-based measures to coordinate the current regulatory system with the resource management administrative systems emerging in territorial governments and claim settlements.

Operating Costs and Special Northern Requirements

Market pressures are forcing Canadian mining companies to cut costs and improve productivity to remain internationally competitive. Companies are doing this by closing uneconomic operations, reducing costs, emphasizing technological innovation and associated upgrading of worker skills, shifting exploration efforts towards commodities having a higher demand potential, and extending and diversifying international marketing efforts. As a result, the Canadian industry today is becoming leaner and more competitive.

Recognition of international market realities is particularly important in the formulation of government policies respecting northern development. Canada's North is generally at a disadvantage relative to other parts of the country with respect to the cost of goods and services, transportation and communication infrastructure and electric power. Labour costs are higher due to the cost of living and the greater difficulty companies have in attracting and retaining skilled workers. The availability and quality of basic geological information are also poorer. These factors combine to reduce the number of economically viable mineral discoveries in the North.

The following suggestions are directed at alleviating some of these contraints to northern mineral development.

1. Infrastructure

Southern-based industry is heavily dependent on national transportation and communication systems and the services of government-owned or regulated utilities. In contrast, a high proportion of northern infrastructure has been paid for by mining (roads, bridges, hydro power, railroads) and has benefitted northern communities. In cases where government has provided up front support for mineral-related infrastructure, the industry has more than paid back government investment.

In recent years, there has been little evidence of a government commitment to expand the availability or lower the cost of these infrastructure requirements.

With respect to road development, spending has been frozen for some time now at the unrealistically low level of approximately $20 million per year. Much of this funding goes to support the maintenance and extension of urban road networks. Spending on mining area access roads has also been constrained by unnecessarily high construction standards and rigid cost-sharing requirements. Industry efforts to alter spending priorities have not been successful, in part at least because of the enormous number of government agencies that must be consulted in the decision-making process related to road construction.

The situation is also unsatisfactory with respect to the upgrading of dock facilities in existing northern ports. As well, previous industry proposals for construction of an icebreaker fleet to extend the northern navigation season have not been acted upon. Many existing airstrips are also in need of upgrading and other air transport services could be improved. Communication costs can also be quite onerous. For example Cullaton Lake's telephone link to the outside world via satellite adds approximately one dollar to the cost of each ton of ore processed.

The mining industry is a large consumer of electricity and thus requires low-cost power. However, the legislation under which the Northern Canada Power Commission (NCPC) operates may add unnecessarily to industry operating costs. The Act prohibits the construction of power generating capability in advance of demand and specifies that the NCPC cannot run a deficit. This means that the NCPC is prohibited from constructing excess capacity to service new developments, particularly in remote areas, in advance of demand.

Thus, new mines have to be within existing hydro plant service areas to benefit from low-cost power. The result is that many mines have individual diesel power generating facilities. Such

inefficiencies add to power costs paid by all northerners, and are particularly onerous for industry. Indeed, in certain areas, mine operations are paying a premium over the normal costs of service. This suggests that rate structures need to be reviewed. The government, and industry might also both benefit from the encouragement of privately developed and operated power stations.

The industry recognizes the financial limitations that exist on government spending for infrastructure facilities. This should create pressure for streamlining the decision-making process and allocating funds in the most efficient manner to potential revenue-creating activities. The industry would welcome the opportunity to cooperate more fully in this process of setting priorities for infrastructure development.

Recommendations

- Create a more structured, ongoing opportunity for industry to participate in setting priorities and to review government expenditures on infrastructure development;

- Change the Act governing the operation of the NCPC to permit pre-building of electrical generating capacity with financing from general revenue or borrowings;

- An industrial power rate structure should be introduced to encourage development and reduce the operating costs of major economic sectors;

- Private companies should be invited to submit proposals for the development of electric power generation and distribution projects.

2. Labour Costs and Availability

There are two problems with respect to the costs and availability of labour that must be addressed. The first relates to the historical difficulty the mining industry has had in attracting and retaining highly-skilled labour in northern locations. The second is the problem of increasing opportunities for participation of northern residents, including native Northerners, in resource development activities.

To attract workers to the high-cost, often isolated environment in Canada's North, a variety of allowances for subsidized housing and travel have traditionally been required. The government has indicated its intention to tax these allowances. Although such incentives are temporarily protected in existing operations until the end of 1985, similar provisions are now taxable in all new developments, thus putting additional bargaining pressure on employers and adding significantly to new mine operating costs.

The government has indicated its intention to review these arrangements and to consult with interested parties during the coming year to establish a more permanent regime. While anxious to see current practice continued and extended to new operations, the industry recognizes that government policy now benefits some northern residents, but not others. Thus, a regional allowance embodied within the Income Tax Act might be the most equitable solution to recognize the North's higher living and operating costs.

The task of increasing the participation of Northerners in mineral development is a question related to the development of appropriate skills, the creation of mechanisms for equity involvement in new projects, and participation in local businesses supported by mining development. The settlement of native land claims will increase the pressure for progress in these areas, as Canada's indigenous people appear increasingly anxious for involvement in economic development activities.

The mining industry has been working with government for several years to develop a modular training scheme. It has been implemented by some northern mine operators. As well, considerable industry effort has been made to involve native peoples in the mining labour force and to accommodate their investment aspirations through company-specific negotiations. The industry wishes to continue such efforts to expand the involvement of Northerners in the process of economic development.

Recommendations

- Permanently extend the Remission Order to all mines, or provide personal tax deductions that would be available to all residents of northern and isolated posts. Establish a working group drawn from government and the private sector to develop proposals on this issue;

- Continue cooperative industry/government efforts to develop improved training programs for northern residents.

3. Tax Policy

Overall, the industry believes the present federal mining tax provisions are fair, equitable and appropriate. Exceptions to this broad endorsement include uncertainty over the taxation of northern allowances, as well as the growing imbalance between profit tax burdens and the imposition of non-profit taxes and other government-mandated charges.

Proposals made in other chapters of this submission touch on these issues. Chapter IV on Mineral Taxation stresses the favourable impact of extending flow-through provisions applicable to exploration expenditures, and suggestions are made for streamlining the administration of these provisions. Chapter V on Industry Competitiveness and Government-Mandated Charges urges governments to control the growth of these cost burdens, for they impact directly on industry operating costs and competitiveness. We believe our proposals, if implemented, would encourage northern mineral development.

In addition to the tax proposals referred to above, consideration could also be given to creating further incentives for northern mineral exploration. In this respect, the federal government has the powers of a province north of 60°. Consequently, it is in competition for exploration expenditures with other provincial jurisdictions, including the Province of Quebec, where the super-depletion provisions have been enormously successful in encouraging increased mineral exploration.

Recommendations

- Implement the proposals outlined in the MAC submissions on mineral taxation and the management of non-profit taxes (Chapters IV and V);

- Match the provisions for treatment of exploration expenditures currently in place in the Province of Quebec.

4. Geoscience

The northern territories occupy the largest land block in Canada, yet these territories are the least explored and most poorly-mapped regions of the country. Large areas have only been mapped on a regional basis (i.e. eight miles to the inch) and federal expenditures are considerably below comparable funding in the provinces.

The Canadian North has tremendous potential for mineral development. The Government can accelerate the identification of areas of potential mineral wealth by increasing its investment in more detailed geoscience activities. In turn, the allocation of these funds can be made more effective if industry is consulted more extensively in the development of geoscience programs.

Recommendation

- Develop an expanded program for geoscience data collection and mapping in consultation with industry.

Regulatory Requirements and Consultation

In Chapter IX on Regulatory Reform, MAC has suggested that the regulatory framework in which the industry must operate can be modified and improved in ways that will give full protection to the interests of society, while liberating the private sector to more fully contribute to national economic well-being.

This is equally true of regulatory requirements north of 60°. In this respect, the major required adjustments are in the project approvals process, in water and land-leasing arrangements, and in effectively specifying the powers of the Territorial governments in accord with the trend towards devolution of political and management responsibilities. Dealing with these issues, together with those referred to in the above sections, requires effective government/ industry consultative mechanisms.

1. The Project Approvals Process

Recent experience in several provinces suggests that the approvals process for new mine development can proceed rapidly, without unnecessary delay or cost. This has not been typical of the situation in the North over the last ten years. In general, the process has been unduly time-consuming, complex, unpredictable, vague, and costly.

The approvals process places particularly onerous burdens on smaller companies. Most major firms are able to carry specialist staff and have learned to live within the existing regulatory environment. Moreover, they tend to have the financial flexibility to schedule project implementation in ways that more easily accommodate the regulatory process. Small companies, on the other hand, have to purchase outside expertise to help negotiate approvals. They have a severely restricted ability to maintain continuous dialogue with regulatory authorities and to hold project financing together when faced with unanticipated delay.

To some extent, unnecessary project approval costs appear to arise from a lack of awareness by regulatory authorities of the fragility of many start-up operations. Government decision-making processes are unresponsive to the investment urgency related to windows of market opportunity and to problems of scheduling work. On the

other hand, some of these problems may result from a lack of awareness by industry, particularly smaller companies, of the government's regulatory system, the nature of the approvals required, and how and when to approach governments.

Because the regulatory process involves bargaining between groups with sometimes different interests, effective communication is essential. Yet, the institutional structures for administering regulations tend to promote confrontation and conflict, rather than to encourage discussion of how different interests can best be met. For these reasons, it is essential that project proponents have direct, ongoing access to individual responsibility centres within government during the entire approvals process. Continuous dialogue with those in authority is necessary if information flows are to be timely and complete.

It also needs to be stressed that a good deal of informed judgement is required to arrive at acceptable terms and conditions under which a mining project will proceed and the actions that must be taken by companies to satisfy these conditions. Involving project proponents in the discussions leading to a statement of requirements could help to ensure that companies are aware of the rationale for each condition and possibly avoid the imposition of overly extensive and costly requirements.

Recommendations

- Involve project proponents and other interested parties, as appropriate, in developing the terms and conditions that must be met before they are "cast in stone" by the bureaucracy;

- Create a single northern-based administrative capability (a "single window") to:

  - act as a point of first entry into the approvals process and to provide comprehensive information on general requirements, departmental responsibilities and contacts;

  - coordinate the initial consultations between the project proponent and regulatory authorities that lead to the establishment of the terms and conditions of approval;

  - facilitate and help speed up the overall processing of applications[1];

- Set time limits for government responses to critical points in the approvals process;

- Update and consolidate information available from several sources into a single booklet on the regulatory process that outlines the steps required to gain approval for a "typical" mining project. The manual should specify planning timeframes, list the permits required, provide samples of typical permits, and be updated annually. All ministries and contact persons should be listed in the booklet.

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[1]N.B. Great care must be taken to ensure that the "single window" set up to facilitate the approvals process does not itself become a bottleneck. It is vital that the project proponents have continuous access to those having the final responsibility for issuing specific permits. Consequently, no attempt should be made to give the central body more authority than basic departmental or territorial legislation allows. With the current distribution of legislative mandates, the "single window" can only be an easy point of first entry into the regulatory system.

2. Water and Land Leasing Arrangements

Chapter IX on Regulatory Reform draws attention to the problem of securing permits for the industrial use of water that results from the single-purpose character of the Fisheries Act.

The strength of this legislation creates considerable uncertainty with respect to the application of water quality standards by the Department of the Environment and the granting of water use permits for industrial purposes by the Territorial Water Boards. Consequently, the industry is seeking an amendment to the Fisheries Act to allow industrial development compatible with the maintenance of the fishery to proceed more easily and to limit participation by the Department of Fisheries and Oceans (DFO) in the project approvals process to that of an intervenor.

In addition, project proponents may be forced into costly duplication of effort while seeking regulatory approvals. For example, environmental restoration measures required under the Water Board licensing process and the land use permit review are generally very similar. They are both ultimately submitted to DIAND, and are a clear case of duplication of effort and costs.

As well, water licenses are usually only issued for a period of up to three years, rather than for the life of a project. This limitation is unnecessary. The Northern Inland Waters Act provides that water licenses may be amended on application by either the Water Board or the operator. Thus, there would be ample opportunity to amend long-term licenses if substantive changes occurred in water use or waste disposal.

Recommendations

- Integrate the processes for permitting and enforcing of land use and water use activities;

- Grant water licenses to mining operations for the full twenty-one year term of the corresponding mineral lease.

3. Review of Regulatory Requirements North of 60°

A proposal to review regulatory requirements North of 60° has been under consideration for some time in DIAND. The MAC has previously supported this proposal, with the proviso that it be conducted by persons who have no vested interest in the present system.

The specific recommendations made in the two preceding sections will go a long way to solving regulatory problems in the territories. However, the development of a durable regulatory framework cannot proceed independently of decisions respecting the future role of the territorial governments.

It should also be noted that since DIAND first started talking about regulatory review a few years ago, it has introduced additional regulatory measures. These have included land use planning, the Northern Benefits Committee, new community consultation requirements, and fresh policy initiatives such as the Conservation Task Force. These will all ultimately have their impact on the regulatory regime. A variety of regulatory and administrative conditions were also attached to the one native land claim that has been settled. The net result is a myriad of overlapping committees without linkages between them. The terms of reference for the proposed regulatory review do not adequately encompass these DIAND initiatives.

Recommendations

- If the regulatory review is to proceed:

. it should be implemented quickly;

. it should not delay implementation of the previous recommendations;

. it should address the evolving role of the territorial governments and the terms of reference should be broadened to include all DIAND activities;

. management of the study should be turned over to an independent private-sector agency or task force.

4. Political Devolution

As the territorial governments attempt to satisfy the desire of their constituents for local control of their political, social and economic future, resource development policies and review programs are being formulated which duplicate the federal process. Progress in moving to more effective decentralization seems to be stalled in the complications of native land claims, division of the Northwest Territories, federal energy policy, and concerns over fiscal viability. Nonetheless, the northern mining industry is of the view that a number of measures can be taken quickly to advance the role of territorial governments.

Recommendations

- Electrical power generation and distribution should be regulated by territorial Public Utilities Boards;

- Territorial governments should have full control of and responsibility for the socio-economic impact assessment of projects and regulations;

- Resource revenues (royalties, permit and license fees, etc.) should accrue to the territorial governments without diminishing federal operating and capital grants;

- Territorial governments should play a prominent role in the Regulatory Review Task Force.

5. Government/Industry Consultation

Government/industry consultation is valuable to both sides. Industry views will be helpful to the government in its efforts at policy formulation, while the long lead times for mineral investment make it essential that industry know the "rules of the game". Thus, some form of ongoing, structured dialogue between industry and the federal and territorial governments, and ministers responsible for northern development, is desirable.

Consultation takes place with governments at the level of individual companies and through the activities of the Chambers of Mines and The Mining Association of Canada. In addition, more formalized contacts have existed for the past six years through the Northern Mineral Advisory Committee (NMAC). The purpose of this Committee was to provide a source of independent advice to the Minister of DIAND on northern mineral policy issues. It also acted as a forum for the exchange of views and information between industry and government officials. Along with other responsibilities, the Mineral Advisor in the Minister's office acted as Secretary to the Committee.

The recent change in government and the apparent termination of the position of Mineral Advisor place the status of the NMAC in question. As well, although the Committee has had a valuable and constructive role to play, industry support has waned in recent years. This is accounted for by the belief that the NMAC has had only a limited impact on the development of northern mineral policy.

As the previous discussion suggests, there are many areas where continuous consultation on specific subjects is highly desirable (e.g. setting priorities for infrastructure development, geological assessment, Northerners' employment and training arrangements). There is also a continuing requirement for monitoring and information exchange between the chambers of mines, the MAC, major companies, territorial governments, EMR, and DIAND.

Some restructuring of the NMAC to give it a more practical mandate might be in order. This could entail reconstituting it essentially as an industry committee that reports directly to the Minister. Substantive work could be done through subcommittees, with the general committee meeting as required with government officials to establish the work program and to exchange information. The Committee as a whole would report to the Minister on an annual or "as required" basis.

Recommendations

- Consideration should be given to restructuring the NMAC as outlined above;

Reorganization of the Department of Indian Affairs and Northern Development

The 1979 Report of the Northern Mineral Advisory Committee suggested that the apparent lack of positive government policy support for non-renewable resource development was related to the organization of DIAND.

In the words of the Report, the increasing priority attached to the Indian Affairs program and the National Parks program following the reorganization of DIAND in 1966 and the evolution of the territorial governments in the 1970s ... "gradually produced a situation where those programs completely dwarfed resource development

in personnel, resources and ministerial preoccupation. This was further compounded by a major policy statement to the Standing Committee on Indian Affairs and Northern Development on March 28, 1972. This new policy placed a much stronger emphasis on the needs of people and the maintenance of ecological balance in the north than on resource development. Unfortunately, the subsequent implementation of this new policy resulted in such a lack of emphasis on economic development, that it was in some ways allowed to languish".

As a result, the NMAC recommended that DIAND be reorganized to give the non-renewable resource sectors greater priority in what had essentially become a social ministry.

The recommendations of the NMAC are as relevant today as they were when they were made in 1979. Indeed, in November 1980 the then Minister of DIAND in a speech to the Edmonton Chamber of Commerce clearly set out his Department's priorities for the 1980s as being linked to the settlement of land claims. Thus, the continuing failure to produce a supportive framework to encourage non-renewable resource development is attributable, in part at least, to the fact that DIAND continues to be preoccupied with policy initiatives in other areas. Yet, if the North is to achieve financial self-sufficiency and if the social aspirations of northerners are to be met, mineral exploration, development and production must be made a priority.

In view of the Government's renewed emphasis on economic development and job creation, a review of DIAND's mandate and organization might be in order. This would be a long-term undertaking.

The industry is of the view that more modest initiatives can be taken to good effect in the very short term.

Recommendations

- An Assistant Deputy Minister of Northern Development should be appointed to be responsible for non-renewable resources, northern pipelines, northern water management, northern lands management, northern forests, regional directors and all subsidiary functions. Other responsibilities currently under the Assistant Deputy Minister, Northern Programs, should be reassigned within the Department.

IX: REGULATORY REFORM

Introduction and Summary

In setting out its agenda for economic renewal, the federal government announced its intent to modify regulatory initiatives that unduly hamper private sector efforts to stimulate growth. This chapter provides suggestions for targeting these reform efforts to alleviate regulatory burdens on the mining industry.

The MAC believes that Canada's regulatory framework can be modified and improved in ways that continue to give full protection to broad social interests while liberating the private sector to contribute more fully to national economic well-being. Present economic circumstances make it imperative that this be done.

Altered mineral supply, demand, and market conditions have resulted in soft commodity prices and tough competition for Canadian mineral producers. Companies have already taken vigorous steps to cut costs and enhance productivity. These are the keys to long-term industry survival. Complementary government efforts to moderate regulatory burdens can help to restore the growth potential of the mining sector.

Our industry has always been regulated to some degree. This is not only inevitable, but in many respects necessary and desirable. To operate effectively and in a socially-responsible manner, companies must know the "rules of the game" and behave accordingly. Thus, the industry is not concerned with regulation, per se. It is the extent of regulatory control and the manner in which regulations have been developed and applied in recent years that are the source of the regulatory problem.

There are over sixty Acts in each province, and a similar range of federal legislation, that directly apply to the mining industry. At both levels, regulations are then supplemented by administrative rules, practices, interpretations, and guidelines.

The administrative apparatus is equally extensive. At the federal level alone, the industry must deal with up to twenty-five separate federal departments and agencies. The diversity of departments dealing with our sector is similar at the provincial level. The potential for policy confusion, overlap and inefficiency in management is obvious.

The regulatory issue also goes well beyond the question of the direct control of the mining industry. It encompasses the broad effects of regulation on other aspects of the economy and on the overall structure of industry costs.

Dealing with many regulations and agencies can be difficult for even the largest, most sophisticated corporations. It is particularly discouraging for smaller mining companies.

While wholesale regulatory reform is an attractive concept, it is unlikely to be productive in the short run. Thus, our suggestions concentrate on specific areas where changes can be immediately beneficial:

- regulatory problems that derive from the narrow, single-purpose character of the Fisheries Act;

- the possibility of introducing a "one-window" approach to regulation, in cooperation with the provinces;

- the indirect effect of government regulatory decisions on the entire range of industry operating costs and on the overall investment climate in Canada;

- the need to create a flexible environment for encouraging adjustments to the use of new technologies and the evolution of employee/employer relations;

- the need for governments to encourage public involvement in deciding whether to opt for regulatory or non-regulatory solutions, and to commit to the full socio-economic assessment of the consequences of different options;

- the need for greater consultation with industry in addressing the problem of acid rain.

Because the federal government has exclusive jurisdiction over territory north of 60^{o}, federal regulations govern access to land and water there for industrial purposes. The government controls all new projects through the issuing of permits. These particular regulatory issues and processes are dealt with in Chapter VIII, Northern Mineral Development.

Although this chapter is addressed primarily to the federal government, some of the problems and examples referred to are provincial. The industry recognizes that efforts have been made in the last several years by both levels of government to bring about regulatory reform. The MAC is pleased to cooperate in a continuation of these efforts which we believe are in the interests of all Canadians.

The Fisheries Act and Its Administration

The wording of Section 31 of the Fisheries Act essentially prohibits any kind of industrial development activity that alters in any way waters in which fish live and spawn, unless authorized by the Minister or under regulations.

In cases where no appropriate regulations exist, the Minister of Fisheries is legally bound to protect the fish habitat and is not able to take offsetting industrial benefits into account in reaching decisions. Consequently, the Minister is frequently placed in the position of having to seek Order-in-Council exemptions in order to allow industrial activity to take place. This unnecessarily creates political pressure and polarizes opinion. It brings issues into the political forum that could be better handled another way.

At best, the resulting process of resolution is time-consuming and uncertain. At worst, it halts economic development. The Act allocates, a priori, a higher social value to the absolute maintenance of the productive capacity of all aspects of fishery areas than to any of the potential social and economic benefits that might flow from competing uses of the water resource.

Moreover, significant conflict and overlap exist between the responsibilities of the Department of Fisheries and Oceans (DFO) and those of the Environmental Protection Service (EPS) of the Department of the Environment. This confusion extends to relations between DFO/EPS and provincial environmental protection agencies, as well as to relations with the Territorial Water Boards.

Water effluent regulations and guidelines are now developed and applied by EPS under Section 33 of the Fisheries Act. Over the years, EPS has developed a good measure of competence in achieving the optimum use of all resurces by balancing environmental protection objectives against a broad range of economic and social

factors. In recent years, tension has emerged between DFO and EPS as a result of DFO's efforts to assume more complete responsibility for fish habitat management.

DFO's position was most forcefully presented in its recent Discussion Paper entitled, "Toward a Fish Habitat Management Policy". DFO proposals would have eliminated the EPS role and seen overall environmental management regress to the situation where a single resource-use concept would guide decisions respecting the use of water. This question has apparently been the subject of extensive negotiations between the two departments, but the results are not yet public.

The rigour of the wording of the Fisheries Act also appears to have saddled DFO officials with a mission that obstructs their ability and perhaps willingness to respond in a timely and appropriate fashion to industrial development proposals. The industry believes officials demand an unreasonable amount of project detail that must be collected at the applicant's expense.

On occasion, they have stiffened the requirements for information as the project approval process has progressed. They have also tended to be slow in providing feedback to industry on the adequacy of information provided and in reaching final decisions. As well, officials have on occasion been politically active, mobilizing public opinion against development.

Where a company feels that the ruling of an individual fisheries officer is arbitrary or unreasonable, there is currently no ready means of resolution or appeal. At present, the complaint can only be referred to senior levels in DFO, culminating in direct appeals to the Minister. This unduly polarizes and politicizes issues. They could be better settled locally or regionally by an independent board or tribunal, if one existed. The formation of such

a board would demonstrate due process, it would defuse issues before they become blown out of proportion, and it would reduce political pressure on the Minister.

The DFO emphasis on its own public hearings for major projects has tended to duplicate public hearings required under provincial environmental protection acts. Uncertainty over regulatory responsibility also extends into the North, where Territorial Water Boards ostensibly control water quality through licensing the industrial use of water.

At present, because of the absolute accountability of the federal Fisheries Minister, there is no scope for accommodation in cases where DFO disagrees with the conclusions of provincial or territorial environmental impact assessments. No mechanism exists to overcome such impasses save compliance with conditions specified by DFO.

Recommendations

- Amend the Fisheries Act to recognize explicitly that, in accordance with appropriate criteria, the Minister will authorize some diminution of fish habitat where the long-term social benefits of industrial development exceed the loss;

- Consolidate responsibility for the administration of Section 33 of the Fisheries Act in EPS. The delegation of responsibility must be complete (i.e. EPS rather than DFO must be the authority of last resort);

- Establish regional Fisheries Appeal Boards, consisting of knowledgeable and independent individuals to review the orders and findings of fisheries officers on the request of a person or corporation subject to such orders;

- With respect to public hearings, limit DFO's role to making submissions as an intervenor in hearings properly constituted under provincial environmental legislation or held by the Water Boards in the North (i.e. leave the adjudication of DFO proposals to local authorities who are in the best position to judge tradeoffs);

- Strengthen the ability of project proponents to participate in establishing the terms and conditions under which development may proceed and the actions that must be taken by companies to satisfy these conditions. These arrangements should be built into a more streamlined project approvals process, as outlined in Chapter VIII on Northern Mineral Development, and proposed in the next section of this chapter;

- Issue guidelines to officials of the Department of Fisheries with respect to timeframes for responding to industry proposals and to taking a less activist role in mobilizing public opinion.

The Single-Window Approach to Regulation

There are basically three types of project approval situations:

- Those north of 60° where the federal government has exclusive authority;

- Those located in the provinces where conditions are such that the provinces have complete responsibility;

- Those in provinces where both provincial and federal approval is necessary.

Many provinces now have a "single window" system for approving projects within their borders. A proposal is advanced in Chapter VIII for creating a type of single window system for managing the federal and territorial project approvals process north of 60^{o}. The remaining problem area is for projects requiring both federal and provincial permits.

Prior to the 1984 Federal General Election, the Progressive Conservative Party undertook to develop, in consultation with the provinces, a one-window regulatory approach for mining. The mining industry is strongly in favour of any streamlining of regulation. However, it believes that the single-window proposal needs careful evaluation.

A number of issues need to be addressed. For example:

- Is the proposal limited to project approvals or to be applied to all regulatory matters?

- Is a super coordinating agency envisaged that would channel all communications between developers and governments, or is the single window primarily to be a source of reliable information on regulatory requirements?

- Is it proposed that one government level would subordinate its regulatory requirements to that of the other level so that a single set of coordinated public hearings would suffice to evaluate a development proposal?

Chapter VIII pointed out that for effective management of the approvals process, the project proponent should be able to participate in developing the terms and conditions that must be met in order to gain approval. Further, there should be continuous access to those in government who have final authority for issuing individual permits. Thus, if the proposal is limited to the

approvals process, then industry's preliminary reaction would be to favour creation of a single point of contact that could provide reliable information. As well, it could act as a point of first entry into the system, facilitate development of terms and conditions and help resolve problem requirements. However, a proposal to create a central agency which would control communication would be viewed with extreme caution.

If the proposal is intended to apply to all regulatory matters, it becomes a very complicated matter. In principle, however, industry would prefer management by a single jurisdiction, rather than duplication of control. The level of government selected would be the most local (or "junior") level that could deal with all the issues involved.

These and perhaps other options should be considered jointly by government, the private sector and the public. A working group or task force could be formed to develop and evaluate alternative approaches to single-window regulation. The mining industry would be willing to participate in such a working group.

Recommendation

- The Minister of State (Mines) and the provincial ministers responsible for mines should establish a task force or working group, including representatives of the industry, to evaluate options for streamlining the processes for project approvals where both federal and provincial permits are required, and to advise on other regulatory issues that might be more effectively handled through a "single window" approach.

Regulation of the Economic Environment

With respect to the investment climate, the most adverse regulations during the last few years have been the elements of discrimination against foreign capital in the NEP and FIRA. The new government has indicated its intention to address these and has already moved to create Investment Canada, an agency to review and encourage foreign investment in Canada. The industry supports this very positive initiative.

Still outstanding is the question of administrative and policy guidelines adopted by the previous government that single out Canada's resource industries for special attention. As a policy target, it was specified that foreign investment proposals relating to major resource projects (defined as $25 million or higher) should have a minimum of 50 per cent, and preferably 60 per cent Canadian ownership. Since there is already a high percentage of Canadian ownership in mining, any such target is unnecessary.

The mining industry is also heavily dependent on a wide variety of infrastructure requirements, public utilities and services for which both access and costs are determined by regulatory bodies. In some commodities, for example, over 50 per cent of the export price of Canadian mineral commodities is accounted for by freight and port charges which are strongly influenced by regulatory decisions.

Another area of concern is energy. All forms of energy in Canada are regulated. The result is that prices paid may not reflect the true market value of different energy forms. This is of considerable concern to the industry. The relative importance of energy has grown -- from perhaps 5 per cent to 15 - 20 per cent of all operating costs. In some smelting and refining operations, the energy share may be as high as 30 per cent. Thus, energy prices are a critical determinant of the competitive position of the Canadian mining industry. The problem of the high non-profit tax component of energy prices is referred to in Chapter V on Industry Competitiveness and Government-Mandated Costs.

Rate increases for electric power can damage competitiveness. In Ontario, for example, the proposed 8 - 9 per cent increase for hydro could add up to three cents per pound to the production cost of nickel at some operations. The legislation under which the Northern Canada Power Commission operates also unduly influences industry operating costs. (This issue is discussed in the chapter on Northern Mineral Policy).

Governments, at both federal and provincial levels, are urged to take a hard look at the cost and revenue structure of public utilities, transportation companies, and other industries that are subject to economic regulation. To a large degree, these industries are protected by regulation and are not subject to market discipline.

As is pointed out in Chapter V, Industry Competitiveness and Government-Mandated Costs, private sector corporations have lowered their costs by as much as 30 per cent to 40 per cent, while rates charged by public utilities have climbed sharply.

There is little evidence that the managements of regulated or protected companies have applied rigorous cost-cutting measures comparable to those introduced by companies competing in international markets. This may, in part, reflect the fact that productivity incentives are weakened in some utilities because they are virtually guaranteed a minimum rate of return which allows them to more easily pass on the costs of inefficiency to customers.

In addition, labour and financial markets and various aspects of corporate organization are all subject to strict regulatory control. The legislation, administrative procedures, and reporting requirements in each area can be voluminous and time-consuming.

Thus, there are very few areas of industry activity or cost structures that are not influenced by government decisions. This is clearly not a situation that is unique to the mining sector. Nevertheless, if governments are to be full partners in the effort to enhance industrial competitiveness, they must ensure that the costs imposed by regulation of the economic environment are held in line.

Recommendations

- Treat foreign investment in Canada's resource industries on the same basis as investment in other sectors. This can best be accomplished with an announcement by the federal Cabinet that the 1974 policy target relating to resource project ownership has been abandoned;

- Both federal and provincial governments should ensure that utilities and other regulated industries are operating at maximum efficiency and providing services at the lowest possible rates. The same rigorous efficiency standards that drive private-sector management must be applied in the activities of government itself;

- Continue efforts to selectively deregulate areas of economic activity with a view to reducing costs through improved competition.

Regulation, Innovation, and Employment

The industry is under continuous pressure to improve productivity in order to remain competitive. This means that better use of technology is central to the long-term survival of the industry. There is a strong complementarity between this objective and the employment implications of potential regulation in several areas.

To take only one example, the cost of reducing noise levels to accord with standards currently under consideration by occupational health authorities could be prohibitive. If enacted into legislation, the industry may have little recourse but to remove workers from noisy environments. This can only be done through automation, which is also the key to many future productivity gains.

This and other parallel cases suggest that concerns now underlying many government regulatory initiatives will be satisfied over time through the process of technologically upgrading industrial operations. Consequently, the use of incentives to encourage broad technological innovation is a viable policy alternative to regulations that bind companies to current technological solutions.

The key is for governments to recognize the need for flexibility. The new generation of mining technologies now being developed and introduced will transform the way business and labour are organized. To be efficient and internationally competitive, users of new technology will require not only the full involvement and cooperation of workers, but a great deal of good-will and imagination on the part of both management and labour.

Government's role in this transition is to break down self-defeating adversarial barriers by encouraging experimentation, information exchange, and dialogue. This cannot be achieved by legislation that sustains the adversarial aspects of employee/employer relations or that attempts to regulate the pace and character of technological advance.

It is, of course, difficult to legislate flexibility, but there are some things that government can avoid doing. For example, governments could refrain from establishing unrealistic norms in labour matters with respect to employee benefits, quality of worklife, affirmative action, equal pay for work of equal value, etc.

Technology clauses in labour codes probably slow the rate of technological innovation and should also be avoided. Legislation in all of these areas could inhibit the movement to a more cooperative relationship between management and employees. This in turn will slow necessary industry adjustment to meet international competition and cause an unnecessary loss of national income and jobs.

Recommendations

- Avoid regulatory rigidity in the areas of technological innovation and labour relations.

- Emphasize technological innovation as a viable alternative to direct regulation.

Consultation on New Regulations and Alternatives

While interest in regulatory reform has increased, it must also be recognized that considerable pressure continues to exist for further regulation. In addition to the fields of technological innovation and employer/employee relations, the areas of greatest concern to the mining industry are those respecting acid rain, noise control, the designation of substances to be controlled in the workplace or released into the environment, and hazardous waste management and transportation.

The industry recognizes that progress has been made in recent years to improve government/industry consultation on the development of new regulations. In particular, at the federal level, the publication of regulatory agendas six months prior to the implementation of new regulations is a step in the right direction.

However, there is a need to go further. Governments should also invite consultation on the basic policy question of whether to seek solutions through regulatory or non-regulatory means. It is important that governments avoid binding companies to regulatory initiatives, thus pre-empting options that might produce better results at less cost.

Whether at the policy decision stage or actually setting regulatory standards, it is also important that governments be responsive to industry's demonstration of potential cost implications by exploring ways of minimizing adverse economic impacts.

Recommendations

- Ensure full and open public consultation on the development of policies respecting the need for new regulations, as well as during the process of standard-setting and drafting of regulations;

- Commit to the conduct of full socio-economic impact analysis of the effects of different options.

Acid Rain - A Special Issue

Acid rain has in a few short years become the most contentious environmental issue of modern times. It divides scientific and political communities and presents a bewildering array of conflicting charges, statements and scientific evidence to an increasingly concerned public.

Initial investigations observing the presence of sulphur and nitrogen acids in readily measured wet precipitation intuitively suggested that a strategy focusing on reducing emissions of sulphur

oxides would largely resolve the acid rain problem. Evidence now available suggests that a much more complex array of emissions, reactions and transport/deposition phenomena are involved.

A complete understanding of the chemistry and physics is lacking. But there is an emerging scientific acceptance that the acidity of precipitation can be expected to respond to a cooordinated U.S.A./Canada program of overall reduction in sulphur and nitrogen oxide emissions.

Canadian negotiators have suggested to their U.S. counterparts that the two countries collectively embrace a program calling for a 50 per cent reduction in eastern North American emissions of sulphur dioxide (SO_2). It was expected that an equivalent reduction in precipitation acidity falling on sensitive areas would result. U.S. regulators remain unconvinced that evidence exists to support such a strategy.

In response to the U.S. refusal to participate, and in spite of earlier public statements by the federal Environment Minister that Canada would only embrace a bilateral acid rain strategy, Canada announced on March 6, 1984 a unilateral commitment to a 50 per cent reduction in eastern Canadian sulphur dioxide emissions, to be achieved by 1994. The announcement also made clear that the least-cost strategy proposed would see the lion's share of the reduction assumed by the Canadian non-ferrous smelting industry. Noticeably absent from the statement was any commitment on the issue of fairness in the sharing of the costs.

It is generally acknowledged by Canadian regulatory authorities that a 50 per cent reduction in Canadian SO_2 emissions, without joint U.S. action, will <u>not</u> reduce wet sulphate deposition to levels that will protect sensitive Canadian waters. To date no consultation on this issue has occurred with the non-ferrous minerals industry.

In contrast, the federal Department of Energy, Mines and Resources examined, in open consultation with industry, labour and provincial officials, how the industry might implement modernization programs that would lead to improvements in both productivity and SO_2 control. The study pointed out the need to foster R & D efforts focusing on productivity as well as environmental targets. It concluded that ways must be found to reduce costs through productivity improvements if Canada is to remain competitive in international markets while achieving the desired emission reductions[1].

The timetable established by the environment ministers may not fit with the availability of technological improvements or the capability of the industry to absorb the resulting capital and operating costs. An impasse may result if R & D efforts are unsuccessful in raising productivity sufficiently. In such a case, the environmental control programs dictated by Canada's SO_2 reduction commitment could make the non-ferrous metals industry or parts of it non-competitive and threaten its survival.

The economic and employment implications of SO_2 control measures must be carefully evaluated prior to establishing emission reductions. The mining industry urges reconsideration of existing targets with these factors in mind.

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1 EMR Special Report, Canada's Nonferrous Metals Industry: Nickel and Copper, 1984.

Recommendations

- Existing commitments on unilateral Canadian reduction of SO_2 emissions should be reviewed in the light of current circumstances;

- There should be full consultation with the Canadian mining industry prior to the formulation or implementation of policies and programs respecting the reduction of SO_2 emissions.

Appendix 1: MEMBER COMPANIES OF THE MINING ASSOCIATION OF CANADA

Aberford Resources Ltd.
Anaconda Canada Exploration Limited
BP Selco Inc.
Brenda Mines Ltd.
Brinco Mining Limited
Brunswick Mining and Smelting Corporation Limited
Camflo Mines Limited
Campbell Red Lake Mines Limited
Campbell Resources Inc.
Canada Tungsten Mining Corporation Limited
Cliffs of Canada Limited
Cominco Ltd.
Conwest Exploration Company Limited
Corporation Falconbridge Copper
Craigmont Mines Limited
Cyprus Anvil Mining Corporation
Denison Mines Limited
Dickenson Mines Limited
Discovery Mines Limited
Dome Mines Limited
Eldorado Nuclear Limited
Equity Silver Mines Limited
Esso Resources Canada Limited
Falconbridge Limited
Giant Yellowknife Mines Limited
Gibraltar Mines Limited
Heath Steele Mines Limited
Hollinger Argus Limited
Hudson Bay Mining and Smelting Co., Limited
Inco Limited
Indusmin Limited
JM Asbestos Inc.
Kerr Addison Mines Limited
Kidd Creek Mines Ltd.
Labrador Mining and Exploration Company Limited
Lac d'Amiante du Québec, Ltée
Lac Minerals Ltd.
Lolor Mines Limited
Mattabi Mines Limited
McChip Resources Inc.
McIntyre Mines Limited
Metallgesellschaft Canada Limited
Nanisivik Mines Limited
Newmont Mines Limited
Noranda Mines Limited
Northgate Exploration Limited
Northlite Exploration and Development Company Limited

Pamour Porcupine Mines, Limited
Pine Point Mines Limited
Placer Development Limited
Potash Company of America
QIT--Fer et Titane Inc.
Quebec Cartier Mining Company
Rayrock Resources Limited
Rio Algom Limited
Rycon Mines Limited
Sherritt Gordon Mines Limited
Sigma Mines (Quebec) Limited
Steep Rock Resources Inc.
Sunro Mines Limited
Supercrest Mines Limited
Teck Corporation
UMEX Inc.
United Keno Hill Mines Limited
United Siscoe Mines Inc.
Uranerz Exploration and Mining Limited
Urangesellschaft Canada Limited
Westmin Resources Limited

Appendix 2: SUMMARY OF RECOMMENDATIONS

III: LABOUR MARKETS AND HUMAN RESOURCES

Employee/Management Relations

- The Canadian Labour Market and Productivity Centre should assist in the development of programs to demonstrate how employee efforts, company performance, productivity, and technological change are all interrelated.

Dislocation and Adjustment

1. Unemployment Insurance

- A full review of all dimensions of the U.I. program should be undertaken. Some of the changes which should be considered are:

  . removing automatic indexation of the Act. A mechanism could be put in place to make yearly adjustments, if required;

  . funding non-wage social aspects of the program through the consolidated revenue account and not from employee/employer premium contributions;

  . reducing the maximum duration of benefits from fifty-two weeks to an eligibility period based on regional employment opportunities;

  . increasing the period of disqualification from the present six weeks maximum in the case of an employee who quits without cause or who is fired for misconduct;

  . requiring those individuals receiving U.I. to undertake, to the greatest degree possible, training in order to improve their skills and re-employability.

- The training aspects of the U.I. program should be exploited fully. Whenever practical, applicants for U.I. benefits should be encouraged to participate in a training/retraining program. Benefits would then continue for the duration of the training activity. Through Section 39 of the U.I. Act, some mining companies have already made use of under-utilized in-house training facilities created because of layoffs. Admittedly, this is a short-term, remedial situation in cases when there is a good prospect of industrial recovery. But workers who would otherwise have been laid off are able to upgrade their skills and become more productive. Both the workers and the company are, therefore, jointly motivated to implement such a program which keeps the work force intact for the duration of a shutdown. This approach is more likely to succeed than the proposal for skill development leave that currently has the support of the Canada Employment and Immigration Commission.

- In addition, support should be continued for mechanisms which permit laid-off workers to carry out private sector job creation projects. Such projects offer workers the opportunity to gain experience by allowing them to take part in work that makes a contribution to their community and also serves to keep the work force stable, so that rehiring can more easily occur. During the most recent recession, several mining companies participated in U.I. job creation projects. We encourage the new government to continue to make this vehicle available to mitigate the cyclical characteristics of the industry.

2. Tax Relief

- Industry supports the government's intention to grant tax relief to employee severance payments made where resource industries close in isolated communities. The criteria for designation of eligible communities should realistically reflect the economic impact of the industry's closure on the community, which may or may not be closely related to its degree of isolation.

- Pension income, separation allowances and vacation pay should not be included in establishing U.I. benefit levels. This measure is unduly harsh for individuals who have lost their jobs through economic adjustment.

3. Flexibility in Pension Arrangements

- All the potential problems with flexible pensions need to be examined in conjunction with the affected parties. Perhaps the example of the initiative taken in January 1982 by the Quebec Metal Mining Association to provide a limited portability scheme for its member companies could be a starting point for such an examination.

Skill Development, Training and Retraining

1. National Training Act

- We support fully the thrust of the National Training Act of 1982. It makes good business sense to channel scarce training funds to occupations designated as nationally important. The main program utilized to obtain these designations, i.e. The Canadian Occupational Projection System (COPS), is, however, only as effective as the quality of information fed into it by the economic partners.

- The Mining Association of Canada is currently working with the Canada Employment and Immigration Commission to develop a detailed skills inventory and an assessment of the industry's human resource requirements and concerns. Other major industries should undertake similar initiatives. If they do not, the COPS analytical base will be weak and we will continue to "shoot from the hip" in planning to meet Canada's human resource needs.

- Once critical occupations have been designated, this industry believes that Canada should emphasize on-the-job training for trades critical to the growth of industry. The new Critical Trades Skills Training Program continues to play an integral role in the process. New institutional arrangements should be explored which will assure continuity of on-the-job training despite fluctuating employment levels.

- Measures are required to better integrate industrial and institutional training. The gap between the educators, the business world, and the government is still too large. Increased use should be made of business/education/government interchanges as a way to better improve the interactions between these groups and the understanding of each other's methods and workings.

- In order to establish uniform standards within a province, most skilled trade occupations are subject to a certification procedure. Usually, this involves apprenticeship programs that have educational components, as well as on-the-job training. The inter-provincial standards program allows portability of credentials for tradesmen who are transferring or relocating to another part of Canada. This practice should be expanded in order to create greater mobility of skilled tradesmen in the work force. An industry/government task force should be set up to establish the full impact of this recommendation and provide a critical path for its early implementation. Studies of systems in other countries would be useful in this regard.

2. Immigration

- When a company has demonstrated its "Canadians first" efforts, in both the training areas and the search for qualified Canadians, government should not impede the immigration process.

3. Youth Employment and the New Professionals

- The concept of student internship should be explored fully as part of the new direction. The industry has had some experience in this field, when under the CEIC's Career Access Program, a Mining Internship Program was launched in March 1984. This pilot provided funding to sponsor an intern for one year, from the pool of graduates in a range of designated mining professions. However, weak economic conditions prevented the full utilization of this program. New terms and conditions should be devised to encourage full participation in addressing the problem.

IV: MINERAL TAXATION

Intergovernmental Issues

1. Stability and Federal/Provincial Harmonization

- To achieve greater stability and harmonization, federal and provincial governments should agree on a set of principles around which the tax system should be structured. In addition to reaching accord on an equitable level of taxation rates and the elimination of escalating tax systems, there is need for agreement on the following.

- The definition of income. At present, there are differences in the way the federal government and some provinces measure income that is subject to tax. At one time, efforts were made to harmonize these definitions, but progress appears to have ceased. The industry believes that the federal definition of income should be universally accepted as the appropriate base from which incentives should be deducted.

- Uniformity in allowable deductions. Business expenses are not always treated in the same manner for tax purposes. For example, interest charges are a legitimate business expense that should be deductible, but they are not recognized as such under most provincial mining tax legislation;

- Full carry-over of losses and investment tax credits. Taxes on the mining industry are increased if expenses actually incurred are not allowed for tax purposes or if losses incurred during a low business cycle cannot be carried forward or backward against taxes payable in profitable years. Recent federal measures to liberalize loss carry-back and carry-forward rules have helped. Further harmonization of the rules related to tax deductions and the application of losses by allowing full carry-over against income will clear up many of the problems of complexity and uncertainty in the existing system.

- Coordination and simplification of administration. Companies are subject to heavy administrative costs that result from the duplication of federal and provincial reporting requirements. Agreement on the points raised above could reduce the need for much of this overlap. In addition, efforts should be made to simplify and better coordinate information demands, the filing of tax returns, and the conduct of audits.

- Management of "non-profit taxes and other government-mandated operating cost burdens. When setting tax policy, governments must recognize the impact which cost burdens associated with non-profit taxes (municipal, capital, sales taxes, etc.), regulations and legislated programs can have on corporate profitability. Taken together, these levies constitute a major contribution by industry to government

revenues and program objectives. Care must be taken by governments to avoid negating the effects of profit tax incentives by shifting revenue collection back to the operating level. For example, energy costs have increased in some operations from around five cents per pound of copper to almost twenty cents per pound, largely because of increases in government revenues derived from energy use and higher rates for hydro. This means that a 5 per cent increase in energy costs has roughly the same impact on industrial competitiveness that a 20 per cent increase would have had ten years ago. Thus, reducing government energy taxes and charges and controlling utility rate increases could significantly improve industry operating costs.

- Profitability as the basis for taxation. Royalties based on production volumes or sales revenue are an inequitable and discriminatory form of taxation. They limit the recovery of the resource in place, they fail to recognize the economic diversity of the industry, and they are not sensitive to changes in profitability which should be the real basis for taxation. Accordingly, the industry believes they should be eliminated.

- Consultation with industry. Full and early industry-government consultations are highly desirable before major shifts in tax policy are made. It is as important for governments to be aware of the consequences of specific policies, as it is for the mining industry to know the "rules of the game".

- Public awareness. Because powerful tax incentives have been put in place by governments to achieve specific types of industry performance, the actual taxes paid by corporations that are meeting government expectations may appear, in the public eye, to be lower than legislated tax rates might imply. To avoid negative public impressions, the industry suggests that governments publicize the fact that they use the tax system to achieve economic objectives, as well as to collect revenues. Companies which respond to government incentives are not evading the payment of taxes, but are merely acting within the rules and regulations set down by governments.

- Leadership. There appears to be growing recognition of the fact that a coherent federal/provincial approach is essential to industrial success. The new federal government will likely wish to take a leadership role in seeking greater harmonization. The industry believes the provinces will respond positively to a cooperative approach and would strongly support such efforts.

2. Lowering Statutory and Marginal Tax Rates

- Escalating provincial mining tax regimes should be replaced by a flat rate of tax on profits.

- To resolve the issue of high tax rates, federal and provincial statutory tax rates should be set so that, in total, they do not exceed the statutory rates applicable to manufacturing.

Federal Initiatives

1. "Flow-Through Tax Provisions

- The provisions for flowing through exploration expenditures should be adjusted to accord with those applicable to R & D.

- The depletion incentive for "intangible" mine development and investment should be eligible for deduction against any source of income.

2. Consolidated Tax Returns or Group Relief

- The government should adopt a concept of group relief similar to that used in the United Kingdom or a system of consolidated tax returns similar to that now in place in the United States.

3. After-Tax Financing

- With suitable safeguards to prevent abuse, after-tax financing mechanisms should be reinstated. With respect to mining, the proceeds would be restricted for use exclusively to finance new mining projects in Canada or to re-finance existing mining and related activities.

4. Northern and Isolated Post Allowances

- Permanently extend the Remission Order to all mines or provide personal tax deductions that would be available to all residents of Northern and isolated posts.

- Establish a working group drawn from government and the private sector to develop proposals on this difficult issue.

5. Other Issues

- Loss carry-over: deduction of exploration costs. Exploration costs must be deducted against income prior to deduction of losses. As a result, companies may not be able to fully utilize losses and/or tax credits which have time limitations on their use. Making the timing of exploration deductions optional would eliminate this anomaly.

- The definition of "exploration". Exploration carried out within the property boundaries of producing mines is generally not included in the definition of exploration for tax purposes, despite the essential nature of this work in terms of discovering and proving up new reserves. Thus, the definition of exploration should be expanded to include on-property exploration.

- Flow-through of investment tax credits. The federal tax system allows the flow-through of investment tax credits earned on some types of mine development costs. However, this vehicle is restrictive in that the amount of the flow-through credit is limited to 25 per cent of the share price and shares may not be redeemed for at least two years. As well, both the company and the investor must deduct the value of the tax credits from their asset base. These restrictions should be eased and only the investor should be required to deduct the value of the tax credits that have been "flowed through".

- Capital Cost Allowances. The November 1981 Budget introduced the so-called "half-year" rule, whereby taxpayers are only permitted to claim one-half of the normal capital cost allowances in the year of acquisition. This decision should be reversed.

- Successor rules. To facilitate corporate reorganization and the attendant utilization of available exploration and development tax deductions, the successor rules should be made less restrictive.

V: INDUSTRY COMPETITIVENESS AND GOVERNMENT-MANDATED COSTS

Reducing Government-Mandated Costs

- Reduce the federal deficit through a disciplined program of spending restraint and the reallocation of spending priorities.

- Clearly distinguish between government and private-sector responsibilities and limit government's involvement in the economy accordingly.

- Cut back on federal funding for industrial development and technological innovation by supporting only investment that is truly incremental and that results in self-sustaining real wealth creation.

- Apply the same efficiency and productivity improvement criteria that drive private-sector management to the full slate of activities of government.

- As a general rule, raise government revenues through profit-based taxes, rather than through the application of non-profit taxes.

- Avoid imposing on industry the costs of meeting broad social objectives that should be borne from general revenue.

VI: EXPORT MARKETS AND TRADE POLICY

Market Access and Trade Barriers

1. Multilateral

- Continue to press through GATT for improved access to all markets. Special emphasis should be placed on the current discussions on non-ferrous metals.

2. Bilateral

- We encourage the Canadian government to work with industry and the U.S.A. to explore the development of a bilateral free trade zone for the non-ferrous sector and the possible expansion of this zone to include all minerals and mining-related equipment and supplies. As a first step, we recommend that a joint private-sector/federal government mining task force, co-chaired by the Minister for International Trade or the Minister of State (Mines) and a senior mining executive, be established to consider carefully the full implications of the development of such a free trade zone for minerals.

- As negotiations proceed with regard to the development of free trade zones, a special fund should be made available by the Canadian government to help offset litigation costs incurred by a company when it has had to become involved in combating restrictive trade practices. If the injured party did not have to bear the brunt of the legal costs, companies would be encouraged to take action which ultimately would benefit the whole industry.

3. Domestic Barriers to International Trade

- The purchase of Canadian mineral commodities should be included in the determination of industrial benefits.

- Provinces should consider removal of restrictions on export of mineral ores and concentrates.

Trade Promotion

- Promotional programs using export awards, and designating October as "Export Trade Month", should be supported fully.

- Increase mineral specialist coverage at foreign posts in major mineral markets.

Market Information

- Increase mineral reporting coverage at posts in countries that are major actors in mineral supply or consumption, primarily by converting positions now devoted to political-social reporting.

- Clarify the objectives and evaluate the success of the existing pilot program of mineral missions. Depending on the results of such evaluation, the program should be extended or terminated.

- Examine the possibility of improved data systems for dissemination of market information.

New End-Uses

- Continue to encourage the formation of joint industry agencies for product research, promotion, and end-use development. Where appropriate, consider government financial support of and participation in such agencies.

VII: INTERNATIONAL INSTITUTIONAL ARRANGEMENTS AND FOREIGN POLICY

Institutional Arrangements

- Canadian policies should devote more attention to the degree to which concessional financing and export credit financing influence project assessment and lead to price distortions in commodity markets.

- Canada should re-examine its current position of supporting the United Nations Law of the Sea treaty. The government should undertake a full review, in consultation with all affected interests, of the costs and benefits of ratification.

- Guidelines should be developed to regulate Canadian government support for mineral development abroad, as well as the position we adopt within international and regional development banks.

- Consider establishing a joint private-sector/government "International Mineral Resource Investment Board" to develop a framework for Canadian participation in overseas mineral projects.

- With industry, EMR should provide improved market information to international lending agencies, export development banks, and commercial banks to make them aware of the supply/demand outlook for mineral commodities. The MAC/EMR Task Force on International Mineral Markets, formed in January 1982, should be encouraged to play an active role in this exchange.

International Commodity and Producer/Consumer Groups

- Where appropriate, the continued use and expansion of international commodity forums should be encouraged as an information exchange mechanism, as well as an avenue to undertake specialized studies and surveys of various aspects of the commodity question.

These should be encouraged to have as wide a membership as possible, but should not involve UNCTAD beyond a secretarial service level.

- Careful consideration should be given to developing study groups for nickel and copper, similar to ILZSG, in order to foster a better international understanding of markets for these metals.

VIII: NORTHERN MINERAL DEVELOPMENT

Land Use and Tenure

1. Native Land Claims

- High priority must continue to be given to the objective of rapidly settling outstanding native land claims in a fair, equitable and non-divisive manner.

- Claim settlements should deviate as little as possible from the dual principles of crown ownership of land and mineral rights, and free access to explore with the right to extract.

- Claim settlements should be designed so as not to add to the complexity of regulatory and policy approval processes.

2. Parks

- Re-examine alienated areas such as parks, game preserves and wilderness areas to identify possible economic natural resource targets. The re-examination should include such methods as geological mapping, geochemical sampling, airborne geophysical surveys, etc. If necessary, amend legislation to allow the rearrangement of boundaries to free lands with economic potential, or allow subsequent development to take place subject to appropriate, site-specific conditions and guarantees.

- To avoid the hasty establishment of park boundaries, the development of new park proposals should proceed in concert with more intensive mineral resource assessment of target areas, conducted by private-sector contractors under the direction of the GSC and charged to the cost of creating parks. Continuing consultation with the mining industry during this period is required. Claims staked in eventual park areas must retain the rights and privileges contained in the applicable mining legislation.

3. International Biological Preserves

- The list of potential IBP sites should be reviewed. Unique, important sites should be clearly designated; land areas affected should be defined so as to keep the amount of land lost to economic development to a minimum. All other areas should be freed for mineral exploration and development.

- In areas where a compelling case can be made for the establishment of an IBP site but no decision has been taken, mineral exploration and mine development in the vicinity should be allowed to proceed on the basis of appropriate performance agreements negotiated by the project proponent and the government.

4. Land-Use Planning

- Adopt multiple-use concepts to guide land-use planning decisions.

- Establish as a guiding principle, the "right to develop" mineral deposits in areas where exploration activity has been authorized, regardless of subsequent land-use decisions (i.e. give binding assurances to exploration companies that future land-use decisions will not jeopardize their investment on a retroactive basis).

- Replace the elaborate Ottawa-based land use planning structure proposed by DIAND with northern-based measures to coordinate the current regulatory system with the resource management administrative systems emerging in territorial governments and claim settlements.

Operating Costs and Special Northern Requirements

1. Infrastructure

- Create a more structured, on-going opportunity for industry to participate in setting priorities and to review government expenditures on infrastructure development.

- Change the Act governing the operation of the NCPC to permit pre-building of electrical generating capacity with financing from general revenue or borrowings.

- An industrial power rate structure should be introduced to encourage development and reduce the operating costs of major economic sectors.

- Private companies should be invited to submit proposals for the development of electric power generation and distribution projects.

2. Labour Costs and Availability

- Permanently extend the Remission Order to all mines, or provide personal tax deductions that would be available to all residents of northern and isolated posts. Establish a working group drawn from government and the private sector to develop proposals on this issue.

- Continue cooperative industry/government efforts to develop improved training programs for northern residents.

3. Tax Policy

- Match the provisions for treatment of exploration expenditures currently in place in the Province of Quebec.

4. Geoscience

- Develop an expanded program for geoscience data collection and mapping in consultation with industry.

<u>Regulatory Requirements and Consultation</u>

1. The Project Approvals Process

- Involve project proponents and other interested parties, as appropriate, in developing the terms and conditions that must be met before they are "cast in stone" by the bureaucracy.

- Create a single northern-based administrative capability (a "single window") to:

  . act as a point of first entry into the approvals process and to provide comprehensive information on general requirements, departmental responsibilities and contacts;

  . coordinate the initial consultations between the project proponent and regulatory authorities that lead to the establishment of the terms and conditions of approval;

  . facilitate and help speed up the overall processing of applications.

- Set time limits for government responses to critical points in the approvals process.

- Update and consolidate information available from several sources into a single booklet on the regulatory process that outlines the steps required to gain approval for a "typical" mining project. The manual should specify planning timeframes, list the permits required, provide samples of typical permits, and be updated annually. All ministries and contact persons should be listed in the booklet.

2. Water and Land Leasing Arrangements

- Integrate the processes for permitting and enforcing of land use and water use activities.

- Grant water licenses to mining operations for the full twenty-one year term of the corresponding mineral lease.

3. Review of Regulatory Requirements North of 60°

- If the regulatory review is to proceed:
  - . it should be implemented quickly;
  - . it should not delay implementation of the previous recommendations;
  - . it should address the evolving role of the territorial governments and the terms of reference should be broadened to include all DIAND activities;
  - . management of the study should be turned over to an independent private-sector agency or task force.

4. Political Devolution

- Electrical power generation and distribution should be regulated by territorial Public Utilities Boards.

- Territorial governments should have full control of and responsibility for the socio-economic impact assessment of projects and regulations.

- Resource revenues (royalties, permit and license fees, etc.) should accrue to the territorial governments without diminishing federal operating and capital grants.

- Territorial governments should play a prominent role in the Regulatory Review Task Force.

5. Government/Industry Consultation

- Consideration should be given to restructuring the NMAC as outlined.

Reorganization of the Department of Indian Affairs and Northern Development

- An Assistant Deputy Minister of Northern Development should be appointed to be responsible for non-renewable resources, northern pipelines, northern water management, northern lands management, northern forests, regional directors and all subsidiary functions. Other responsibilities currently under the Assistant Deputy Minister, Northern Programs, should be reassigned within the Department.

IX: REGULATORY REFORM

The Fisheries Act and Its Administration

- Amend the Fisheries Act to recognize explicitly that, in accordance with appropriate criteria, the Minister will authorize some diminution of fish habitat where the long-term social benefits of industrial development exceed the loss.

- Consolidate responsibility for the administration of Section 33 of the Fisheries Act in EPS. The delegation of responsibility must be complete (i.e. EPS rather than DFO must be the authority of last resort).

- Establish regional Fisheries Appeal Boards, consisting of knowledgeable and independent individuals to review the orders and findings of fisheries officers on the request of a person or corporation subject to such orders.

- With respect to public hearings, limit DFO's role to making submissions as an intervenor in hearings properly constituted under provincial environmental legislation or held by the Water Boards in the North (i.e. leave the adjudication of DFO proposals to local authorities who are in the best position to judge tradeoffs).

- Strengthen the ability of project proponents to participate in establishing the terms and conditions under which development may proceed and the actions that must be taken by companies to satisfy these conditions. These arrangements should be built into a more streamlined project approvals process, as outlined.

- Issue guidelines to officials of the Department of Fisheries with respect to timeframes for responding to industry proposals and to taking a less activist role in mobilizing public opinion.

The Single-Window Approach to Regulation

- The Minister of State (Mines) and the provincial ministers responsible for mines should establish a task force or working group, including representatives of the industry, to evaluate options for streamlining the processes for project approvals where both federal and provincial permits are required, and to advise on other regulatory issues that might be more effectively handled through a "single window" approach.

Regulation of the Economic Environment

- Treat foreign investment in Canada's resource industries on the same basis as investment in other sectors. This can best be accomplished with an announcement by the federal Cabinet that the 1974 policy target relating to resource project ownership has been abandoned.

- Both federal and provincial governments should ensure that utilities and other regulated industries are operating at maximum efficiency and providing services at the lowest possible rates. The same rigorous efficiency standards that drive private-sector management must be applied in the activities of government itself.

- Continue efforts to selectively deregulate areas of economic activity with a view to reducing costs through improved competition.

Regulation, Innovation, and Employment

- Avoid regulatory rigidity in the areas of technological innovation and labour relations.

- Emphasize technological innovation as a viable alternative to direct regulation.

Consultation on New Regulations and Alternatives

- Ensure full and open public consultation on the development of policies respecting the need for new regulations, as well as during the process of standard-setting and drafting of regulations.

- Commit to the conduct of full socio-economic impact analysis of the effects of different options.

Acid Rain - A Special Issue

- Existing commitments on unilateral Canadian reduction of SO_2 emissions should be reviewed in the light of current circumstances.

- There should be full consultation with the Canadian mining industry prior to the formulation or implementation of policies and programs respecting the reduction of SO_2 emissions.